

Rolf Group

Consolidated and Combined Financial Statements

in accordance with International Financial Reporting Standards

31 December 2004

Contents

Report of independent auditors	2
Consolidated Balance Sheet	3
Combined Statement of Income	4
Combined Statement of Cash Flows	5
Combined Statement of Changes in Equity	6

Notes to the Financial Statements

1	The Rolf Group and its operations	7
2	Basis of presentation of the financial statements	7
3	Summary of significant accounting policies	9
4	Critical estimates	12
5	Balances and transactions with related parties	13
6	Cash and cash equivalents	13
7	Accounts receivable and prepayments	13
8	Inventories	14
9	Property, plant and equipment	14
10	Accounts payable and accrued expenses	15
11	Provisions	15
12	Short-term borrowings, interest expense and borrowings and prepayments for vehicles in production	16
13	Long-term borrowings	17
14	Income and other taxes payable	17
15	Share capital and other equity items	17
16	Vehicles, consumables and services	17
17	Logistics, insurance and advertising	18
18	Employee compensation and benefits	18
19	Income tax expense and deferred taxes	18
20	Contingencies, commitments and operating risks	20
21	Principal subsidiaries and disposal of business	21
22	Financial risks	22

REPORT OF INDEPENDENT AUDITORS

To the Shareholders

We have audited the accompanying consolidated balance sheet of Delance Limited and its subsidiaries (the "Group" or "Rolf Group") as of 31 December 2004 and the related combined statements of income, of cash flows and of changes in equity for the year then ended. These financial statements set out on pages 3 to 22 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation
11 May 2005

Rolf Group
Consolidated and Combined Financial Statements
31 December 2004
Consolidated and Combined Balance Sheet
(in thousands of US dollars)



	Note	2004	2003 (Note 2)
ASSETS			
Non-current assets:			
Property, plant and equipment	9	116,280	58,922
Deferred tax assets	19	7,266	4,614
Financial and other assets	21	10,383	17,642
Total non-current assets		133,929	81,178
Current assets:			
Cash and cash equivalents	6	7,103	7,274
Accounts receivable and prepayments	7	114,944	57,167
Prepayments for vehicles in production	12	47,087	18,672
Inventories	8	120,613	35,503
Total current assets		289,747	118,616
Total assets		423,676	199,794
LIABILITIES			
Non-current liabilities:			
Long term borrowings	13	25,686	16,259
Deferred tax liabilities	19	13,097	4,198
Provisions	11	8,670	10,745
Total non-current liabilities		47,453	31,202
Current liabilities:			
Accounts payable and accrued expenses	10	32,670	27,962
Income and other taxes payable	14	10,728	6,549
Provisions	11	29,006	14,794
Short-term borrowings	12	95,719	27,507
Borrowings for vehicles in production	12	47,087	18,672
Advances from customers		27,011	17,966
Total current liabilities		242,221	113,450
Total liabilities		289,674	144,652
Capital and reserves attributable to the Company's equity holders:			
Share capital	15	10	617
Share premium		40	896
Revaluation reserve		17,616	-
Retained earnings		109,242	53,555
		126,908	55,068
Minority interest		7,094	74
Total equity		134,002	55,142
Total liabilities and equity		423,676	199,794

Approved on 11 May 2005 by senior management:

Sergei Petrov
Chairman

Matt Donnelly
President & Chief Executive Officer

Michael Gleeson
Chief Financial Officer

Approved for issue by the Board of Directors of Delance Limited on 11 May 2005 and signed on their behalf by:

The accompanying notes are an integral part of the financial statements

Rolf Group
Consolidated and Combined Financial Statements
31 December 2004
Combined Statement of Income
(in thousands of US dollars)



	Note	Year ended 31 December 2004 (Note 2)	Year ended 31 December 2003 (Note 2)
Sales			
Vehicles		821,391	409,556
Spare parts and maintenance		206,111	100,611
Total sales		1,027,502	510,167
Vehicles, consumables and services	16	(813,261)	(403,533)
Profit after vehicles, consumables and services		214,241	106,634
Logistics, insurance and advertising	17	(63,824)	(33,460)
Employee compensation and benefits	18	(27,563)	(19,430)
Office costs, business travel and services		(16,580)	(11,825)
Depreciation, amortisation and impairment	9	(5,715)	(2,586)
Other operating expenses, net		(4,995)	(2,016)
Profit from operations		95,564	37,317
Interest expense	12	(9,950)	(7,130)
Net foreign exchange gains/(losses)		(106)	(1,323)
Profit before income tax		85,508	28,864
Income tax expense	19	(25,039)	(10,786)
Profit for the year		60,469	18,078
Attributable to:			
Equity holders of the Company		51,655	13,999
Minority interest		8,814	4,079
		60,469	18,078

The accompanying notes are an integral part of the financial statements

Rolf Group
Consolidated and Combined Financial Statements
31 December 2004
Combined Statement of Cash Flows
(in thousands of US dollars)



	Note	Year ended 31 December 2004 (Note 2)	Year ended 31 December 2003 (Note 2)
Cash flows from operating activities			
Profit before income tax		85,508	28,864
Adjustments for:			
Depreciation	9	4,730	2,586
Results of equity accounted investment	21	(2,050)	(3,001)
Provision for impairment of fixed assets	9	985	-
Provision to reduce non-current receivables to fair value	21	720	-
Net foreign exchange losses		106	1,323
Loss/(profit) on disposal of property, plant and equipment		284	(121)
Interest expense	12	9,950	7,130
Provisions for bonuses and warranties		6,020	10,222
Operating cash flows before working capital changes		106,253	47,003
Decrease (increase) in accounts receivable		(57,777)	3,529
Decrease (increase) in inventories		(85,110)	2,583
(Increase) in prepayments		(28,415)	(8,976)
Increase (decrease) in accounts payable and accrued expenses		1,819	(1,625)
Increase in other taxes payable		4,482	2,889
Increase in advances from customers		9,045	8,339
Cash (used in)/ generated from operations		(49,703)	53,742
Income taxes paid		(17,838)	(5,147)
Interest paid, including capitalised		(10,550)	(6,843)
Net cash (used in)/generated from operating activities		(78,091)	41,752
Cash flows from investing activities			
Purchase of property, plant and equipment (excluding interest capitalised)		(36,007)	(27,738)
Proceeds from the sale of property, plant and equipment		2,410	1,171
(Increase)/decrease in financial and other assets		8,589	(6,024)
Purchase of minority interests		-	(10,338)
Net cash (used in) investing activities		(25,008)	(42,929)
Cash flows from financing activities			
Proceeds from borrowings		86,929	16,259
Proceeds from trade finance		28,415	8,976
Repayment of borrowings		(9,290)	(21,152)
Capital issued		2,465	-
Distributions		(7,845)	(9,608)
Net cash generated from/(used in) financing activities		100,674	(5,525)
Effect of exchange rate changes		2,254	(604)
Net (decrease) in cash and cash equivalents		(171)	(7,306)
Cash and cash equivalents at the beginning of the year		7,274	14,580
Cash and cash equivalents at the end of the year		7,103	7,274

The accompanying notes are an integral part of the financial statements

Rolf Group
Consolidated and Combined Financial Statements
31 December 2004
Combined Statement of Changes in Equity
(in thousands of US dollars)



	Attributable to equity holders of the Company				Attributable to minority interests	Total equity
	Share capital (Note 15)	Share premium	Revaluation reserve (Note 9)	Retained earnings		
Balance 1 January 2003 (combined – Note 2)	471	830	-	43,638	8,004	52,943
Net income recognised directly in equity – currency translation differences	37	66	-	3,244	720	4,067
Profit for the year	-	-	-	13,999	4,079	18,078
Total recognised income for 2003	37	66	-	17,243	4,799	22,145
Purchase of minority interests	-	-	-	2,391	(12,729)	(10,338)
Formation of companies	109	-	-	(109)	-	-
Distributions (Note 15)	-	-	-	(9,608)	-	(9,608)
Total other movements	109	-	-	(7,326)	(12,729)	(19,946)
Balance 31 December 2003 (combined – Note 2)	617	896	-	53,555	74	55,142
Fair value gains, land and buildings	-	-	23,179	-	-	23,179
Deferred tax liability (Note 19)	-	-	(5,563)	-	-	(5,563)
Currency translation differences	-	-	-	5,687	468	6,155
Net income recognised directly in equity	-	-	17,616	5,687	468	23,771
Profit for the year	-	-	-	51,655	8,814	60,469
Total recognised income for 2004	-	-	17,616	57,342	9,282	84,240
Share capital issued	10	40	-	-	2,415	2,465
Formation of the Group	(617)	(896)	-	1,513	-	-
Distributions (Note 15)	-	-	-	(3,168)	(4,677)	(7,845)
Total other movements	(607)	(856)	-	(1,655)	(2,262)	(5,380)
Balance 31 December 2004 (consolidated – Note 2)	10	40	17,616	109,242	7,094	134,002

The accompanying notes are an integral part of the financial statements

1 The Rolf Group and its operations

The Group's principal activities include importing, wholesale and retail distribution of cars in the Russian Federation, and the servicing thereof. The Group's own retail facilities are based in Moscow and St. Petersburg, Russia.

The parent company of the Rolf Group, Delance Limited (the "Company"), was incorporated in Cyprus on 13 September 2004 and is registered at Julia House, 3 Themistokli Dervi, Nicosia PC 1066. Details of the principal subsidiaries are disclosed in Note 21. The ultimate beneficial owner of Delance Limited is Mr. Sergei Petrov.

The Group has an exclusive distribution contract with Mitsubishi Motors Corporation for importing cars into the Russian Federation until 2009, and is the sole distributor in Russia for imported vehicles produced by Hyundai Motor Company until the end of 2005 under the current agreement, which management fully expects will be renewed on similar terms. It sells these vehicles to customers through its own network of dealer centres, and on a consignment basis through independent dealers throughout Russia. It also has non-exclusive purchasing arrangements with Ford, Mazda, Volvo, and Audi.

2 Basis of presentation of the financial statements

These financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") using accounting policies that are applied consistently for all periods presented, unless stated otherwise.

The companies previously owned by the ultimate beneficial owner of Delance Limited in his personal capacity, and which became subsidiaries of Delance Limited in the period from its incorporation to 31 December 2004 have been included in these financial statements as subsidiaries. The financial statements are described as "consolidated and combined" since the majority of the transactions and figures relate to periods before the incorporation of Delance Limited, during which time no legal parent existed for the companies eventually sold or transferred to Delance Limited. However, all figures in the balance sheet at 31 December 2004 are described as "consolidated", since Delance Limited by that date had purchased or otherwise received the investments through share exchanges.

The financial statements have been prepared under the historical cost convention except that buildings are periodically revalued on the basis of appraisals by an independent valuer, and these values are substituted for historical cost in the financial statements.

Early adoption of standards

These financial statements are the first prepared by Rolf Group, and management has adopted IFRS 1 - "First-time Adoption of International Financial Reporting Standards" in their preparation. The date of transition to IFRS was 1 January 2003, and the date of adoption was 31 December 2003. The Group has decided to adopt the following IFRSs, which are relevant to its operations, in advance of their mandatory implementation dates:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share based payments
IFRS 5	Non-current assets held for sale and discontinued operations

The Group has used the exemption available to first-time adopters of IFRS, contained in IFRS 1, under which the cumulative translation differences up to the date of transition are included in retained earnings.

2 Basis of presentation of the financial statements (continued)

Transition to IFRS

A reconciliation of the equity which would have been reported under accounting principles generally accepted in the Russian Federation (Russian GAAP) at the transition and reporting dates, had the Group existed and been required to prepare financial statements at those dates, is as follows:

	31 December 2004	1 January 2003
Theoretical equity under previous applicable GAAP	124,840	54,255
Hyperinflationary accounting for fixed assets	6,383	6,759
Revaluation reserve	17,616	-
Accrued warranty and other provisions, accruals and annual leave	(18,527)	(8,071)
Currency translation differences	7,946	-
Capitalised interest	1,786	-
Additional deferred taxes	(4,337)	-
Impairment of fixed assets	(985)	-
Provision to reduce non-current receivables to fair value	(720)	-
Equity according to these IFRS financial statements	134,002	52,943

A reconciliation of the profit in these financial statements for the year ended 31 December 2004 to that which would have been reported, had the Group existed throughout the year and had there been a requirement to prepare financial statements under Russian GAAP, is as follows:

	2004
Theoretical profit under previous applicable GAAP	66,058
Capitalised interest on assets under construction	1,786
Imputed interest on provisions	(1,188)
Deferred taxation	706
Accrued warranty costs and other items	(3,228)
Accrued bonuses payable and receivable	403
Accrued annual leave and other items	(2,363)
Impairment of fixed assets	(985)
Provision to reduce non-current receivables to fair value	(720)
Profit for the year according to these IFRS financial statements	60,469

Functional and presentation currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's financial statements are presented in US dollars, which management believes is the most useful currency to adopt for users of these statements. These financial statements are based on the underlying statutory accounting records of each Group company, maintained in accordance with the relevant legislation in its country of incorporation, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The results and financial position of all Group companies (none of which operated in a hyperinflationary economic environment during the years ended 31 December 2003 and 2004) that have a functional currency different from the presentation currency adopted by the Group for these financial statements are translated into the presentation currency as follows:

- assets and liabilities in each balance sheet presented are translated at the exchange rate at the date of that balance sheet;
- income and expenses in each statement of income (and cash flows in each statement of cash flows) presented are translated at the average exchange rates for the year, which are determined at sufficiently frequent intervals so that the results approximate the rates prevailing on the date of the transactions;
- all resulting exchange differences are recognised in equity.

2 Basis of presentation of the financial statements (continued)

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation had ceased, effective from 1 January 2003 the Group no longer applied the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the amounts in the financial statements of the relevant companies, prior to their conversion to US\$.

3 Summary of significant accounting policies

3.1 Group accounting

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interests method. The assets and liabilities of each subsidiary transferred under common control is recorded in the financial statements at their historical cost to the controlling shareholder (the Predecessor). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the financial statements as an adjustment to equity.

Subsidiary

Subsidiaries acquired after the incorporation of the parent company, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary acquired is recorded as goodwill. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest

Minority interest at the balance sheet date represents the fair value of the minority shareholders' share of net identifiable assets of the subsidiary at the acquisition date, and the minorities' share of results and movements in equity since the date of the acquisition. Acquisition of interests previously held by minorities are accounted for as transactions in equity, based on the premise that the minorities are owners in the context of the Group's financial statements.

3.2 Cash and cash equivalents

Cash comprises cash in hand and cash held on demand with banks.

3.3 Trade receivables

Trade receivables are carried at original invoice amount less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3 Summary of significant accounting policies (continued)

3.4 Value added tax

Value added tax ("VAT") related to sales in Russia is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis, separately for each company. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability.

3.5 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined at actual cost for vehicles and spares. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

3.6 Property, plant and equipment

Property, plant and equipment other than buildings are recorded at purchase or construction cost, less accumulated depreciation. Buildings are initially recorded at cost, and are revalued on the basis of appraisals by an independent valuer every three years. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on a revaluation of buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases in value of the same asset are charged against the revaluation reserve; all other decreases are included in the statement of income of the current year. Each year the difference between depreciation based on the revalued carrying amount, which was charged to the statement of income, and the depreciation charge based on the asset's original cost is transferred from revaluation reserve to retained earnings.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset.

Depreciation of all categories of property, plant and equipment is calculated on a straight-line basis. Management reviewed the residual values and the depreciation methods used for each class of property, plant and equipment during the preparation of these financial statements, and made no changes thereto. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	40
Plant and machinery	10 to 15
Equipment and motor vehicles	3 to 10

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred. At the time of the sale or disposal of a building, any amount remaining in the revaluation reserve attributable to that building is transferred to retained earnings.

3.7 Borrowings

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Interest costs on borrowings to finance the

3 Summary of significant accounting policies (continued)

construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.8 Deferred income taxes

Deferred tax assets and liabilities are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes using the balance sheet liability method. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.9 Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

3.10 Provisions

Provisions are recognised when a Group company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are discounted at rates reflecting current market assessments of the time value of money and the risks inherent in the liability.

Bonuses

The Group accrues bonuses payable for the achievement of long-term and sustainable growth and results, which cover multiple periods. Management estimates the amount payable in respect of each period, and restates the accrued liability based on achievement of the targets as agreed periodically with the shareholders.

Warranty costs

The Group recognises the estimated liability to repair or replace vehicles sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements per vehicle sold using statistics provided by the manufacturer of the vehicle, as amended for the Group's experience in its market.

3.11 Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.12 Revenue recognition

Revenues are shown net of VAT and discounts. Revenue from the sale of vehicles is recognised when title to the vehicle has been transferred to the buyer. Revenue from the sale of spare parts and from maintenance activities (including spares consumed and maintenance carried out under manufacturer's warranty) are recognised when the vehicle has been returned to the customer.

3 Summary of significant accounting policies (continued)

3.13 Employee benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees, and these contributions are expensed when incurred.

3.14 Operating leases

Leases for land, and those for other assets under which the lessor retains a significant portion of the risks and rewards of ownership, are classified as operating leases. Payments made at the inception of operating leases are charged to the statement of income on a straight line basis over the period of the lease; annual lease payments are included in the statement of income on the accruals basis.

3.15 Tax accruals and provisions

Tax accruals are made on the basis of declarations and filings. Provisions for additional amounts of taxes, interest and penalties are made, based on management's best estimate of the obligations in accordance with rates set out in the respective laws in effect at the balance sheet date, where management consider it is probable that certain tax positions taken by the Group would not be sustained if directly challenged by the authorities. However, should the tax authorities raise an assessment, the Group would vigorously defend its positions. The provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities of the country in which the relevant Group company is incorporated. Upon expiry of the review period, the provisions are released and treated as a contingent liability until the accounting documentation maintenance period expires under the relevant legislation (Note 20 ii).

3.16 Incentives receivable and payable

Incentives based on quantities of cars purchased and sold are accounted for in the statement of income when the conditions applicable under the relevant scheme have been met, usually when the car has been sold to the buyer and no right of return exists. Incentives receivable are deducted from vehicles, consumables and services, and incentives payable are deducted from sales in the statement of income.

4 Critical estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. These estimates and judgements are continually evaluated and are based on historical experience and other factors which are believed to be reasonable under the circumstances at the time when the financial statements are issued, including expectations of future events. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are set out below:

Valuation of buildings: Buildings are carried at revalued amounts of US\$ 73,321. Changes in the estimates used in the valuation would affect equity but would have no effect on the profit for the year.

Estimated warranty provision: Warranty provisions are carried at US\$ 12,778. Increases in the estimated costs used to calculate warranty provisions would reduce profit for the year, and decreases in those estimates would increase the profit for the year by the same amount as the change in the provision.

Estimated income tax provision: Group companies are subject to income taxes mainly in the Russian Federation. Significant judgement is frequently required in estimating provisions for income taxes and for deferred taxes, which are carried at a net total of US\$ 30,850. Increases in management's estimates of the Group's tax liabilities would reduce profit for the year, and decreases in those estimates would increase profit for the year, in each case by the same amount as the change in the total provision.

5 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The nature of the related party relationships for those related parties with whom the Group companies entered into significant transactions or had significant balances outstanding are detailed below.

i Loans to other companies belonging to the ultimate beneficial owner:

A number of other Group companies are owned by the ultimate beneficial owner of Delance Limited, and there are no plans to bring them into the Group ownership structure. The balances relating to these companies, which the owner plans to clear by the end of 2005, are as follows:

	<u>2004</u>	<u>2003</u>
Loans (interest-free, no fixed terms of repayment) included in accounts receivable and prepayments (Note 7)	4,789	-
	<u>4,789</u>	<u>-</u>

ii Key management personnel compensation:

Compensation of 14 key management personnel consists of fixed annual remuneration and a performance bonus depending on operating results, paid for their services in full time positions, as follows:

	<u>2004</u>	<u>2003</u>
Salaries, wages and short-term benefits including performance bonuses	2,482	1,744
Bonuses accrued for achievement of long-term targets	1,437	1,330
	<u>3,919</u>	<u>3,074</u>

6 Cash and cash equivalents

Denominated in:	<u>2004</u>	<u>2003</u>
RR	6,800	6,976
US dollars	303	298
	<u>7,103</u>	<u>7,274</u>

7 Accounts receivable and prepayments

	<u>2004</u>	<u>2003</u>
Trade receivables	38,342	29,547
VAT recoverable	19,434	9,066
Other receivables	6,804	1,446
Advances to suppliers	30,038	14,433
Current portion of receivable from sale of business (Note 21)	9,940	-
Receivables from related parties (Note 5)	4,789	-
Prepayments and accrued income	5,597	2,675
	<u>114,944</u>	<u>57,167</u>

Denominated in:	<u>2004</u>	<u>2003</u>
RR	69,141	12,924
US dollars	45,803	44,243
	<u>114,944</u>	<u>57,167</u>

8 Inventories

	2004	2003
Vehicles at pre-import storage areas, Group warehouses and dealer centres	84,892	17,976
Vehicles on consignment at non-Group company dealer centres	17,483	6,287
Spare parts for vehicles	18,238	11,240
	<u>120,613</u>	<u>35,503</u>

Inventories of US\$ 79,247 (2003: US\$ 22,232) have been pledged as security for borrowings.

9 Property, plant and equipment

	Buildings	Plant and equipment	Other	Assets under construction	Total
<u>Cost</u>					
Balance at 1 January 2003	22,795	10,289	1,853	824	35,761
Additions	263	8,663	4,241	14,930	28,097
Disposals	-	(1,637)	(450)	(5)	(2,092)
Currency translation differences	1,814	1,109	348	691	3,962
Balance at 31 December 2003	<u>24,872</u>	<u>18,424</u>	<u>5,992</u>	<u>16,440</u>	<u>65,728</u>
<u>Accumulated Depreciation</u>					
Balance at 1 January 2003	1,008	3,290	518	-	4,816
Depreciation charge	597	1,583	406	-	2,586
Disposals	-	(1,030)	(11)	-	(1,041)
Currency translation differences	105	283	57	-	445
Balance at 31 December 2003	<u>1,710</u>	<u>4,126</u>	<u>970</u>	<u>-</u>	<u>6,806</u>
<u>Net Book Value</u>					
Balance at 1 January 2003	21,787	6,999	1,335	824	30,945
Balance at 31 December 2003	<u>23,162</u>	<u>14,298</u>	<u>5,022</u>	<u>16,440</u>	<u>58,922</u>
	Buildings	Plant and equipment	Other	Assets under construction	Total
<u>Cost</u>					
Balance at 1 January 2004	24,872	18,424	5,992	16,440	65,728
Additions	230	16,411	6,497	14,655	37,793
Transfers	25,825	-	-	(25,825)	-
Disposals	-	(2,194)	(678)	-	(2,872)
Revaluation	20,666	-	-	-	20,666
Currency translation differences	1,728	1,676	591	1,381	5,376
Balance at 31 December 2004	<u>73,321</u>	<u>34,317</u>	<u>12,402</u>	<u>6,651</u>	<u>126,691</u>
<u>Accumulated Depreciation</u>					
Balance at 1 January 2004	1,710	4,126	970	-	6,806
Depreciation charge	673	3,274	783	-	4,730
Disposals	-	(183)	(5)	-	(188)
Impairment	985	-	-	-	985
Revaluation	(2,513)	-	-	-	(2,513)
Currency translation differences	130	372	89	-	591
Balance at 31 December 2004	<u>985</u>	<u>7,589</u>	<u>1,837</u>	<u>-</u>	<u>10,411</u>
<u>Net Book Value</u>					
Balance at 1 January 2004	23,162	14,298	5,022	16,440	58,922
Balance at 31 December 2004	<u>72,336</u>	<u>26,728</u>	<u>10,565</u>	<u>6,651</u>	<u>116,280</u>

9 Property, plant and equipment (continued)

Bank borrowings of US\$ 23,880 (2003: US\$ 4,500) are secured on properties (Note 13). Borrowing costs of US\$ 1,786 (2003: US\$ 359), arising on financing for the construction of new, or significantly renovated, dealer centres were capitalised during the year. A capitalisation rate of 8% (2003: 8%) was used, representing the average borrowing costs of the Group.

Buildings were valued by an independent valuer as of 31 December 2004, using market-based evidence and estimated replacement cost. Due to the specialised nature of the buildings, and the relative infrequency with which such buildings are sold in Russia except as part of a continuing business, management adopted values at the lower end of the range obtained from these valuations. An impairment provision of US\$ 985 was recognised against one of the properties, based on its valuation, and charged to the statement of income. The carrying amount that would have been recognised in the financial statements had the assets been carried at historical cost and the effect of the revaluation are shown below:

	31 December 2004
Historical cost	50,142
Revaluation surplus	23,179
Restated cost	<u>73,321</u>

10 Accounts payable and accrued expenses

	2004	2003
Trade payables	24,161	25,466
Payroll liabilities	4,515	1,759
Accrued liabilities and other creditors	3,994	737
	<u>32,670</u>	<u>27,962</u>

Denominated in:	2004	2003
RR	13,702	13,504
US dollars	18,968	14,458
	<u>32,670</u>	<u>27,962</u>

11 Provisions

	Bonuses to key management	Taxation	Warranty	Total
Balance at 1 January 2004	3,992	10,679	10,868	25,539
Additional provisions	1,439	7,656	5,156	14,251
Imputed interest expense (Note 12)	319	-	869	1,188
Utilised in the year	-	-	(4,115)	(4,115)
Currency translation differences	-	813	-	813
Balance at 31 December 2004	<u>5,750</u>	<u>19,148</u>	<u>12,778</u>	<u>37,676</u>

Analysis of total provisions at 31 December	2004	2003
Non-current	8,670	10,745
Current	29,006	14,794
	<u>37,676</u>	<u>25,539</u>

11 Provisions (continued)

Warranty

On Mitsubishi vehicles produced up to 31 December 2003, Group companies gave customers a two year warranty in excess of that provided by the manufacturer. Mitsubishi vehicles produced after 1 January 2004 are covered by the manufacturer's extended three year warranty, and the exposure of Group companies to warranty claims for Mitsubishi vehicles therefore ends on approximately 31 December 2006.

On Hyundai vehicles sold to the end of 2002, Group companies gave customers a three year warranty additional to that provided by the manufacturer, and for sales starting from the beginning of 2003, a two year warranty additional to that provided by the manufacturer.

A provision for these costs has been recognised based on the Group's past experience of the level and average cost of repairs incurred under the manufacturer's warranty schemes. It is expected that US\$4,108 will be used during 2005, and the remainder in subsequent years, and these amounts have been classified as current and non-current, respectively, in the balance sheet. The provisions are discounted at the rate of 8% per year from the date when they are expected to be used.

12 Short-term borrowings, interest expense and borrowings and prepayments for vehicles in production

	Interest	2004	Interest	2003
Bank loans in US\$	3-8.5%	24,090	3-6.8-%	9,290
Bank loans in Euro	11%	11,394	N/a	-
Revolving credit line in US\$	10-12.5%	60,235	10-12.5%	18,217
Total short-term borrowings		<u>95,719</u>		<u>27,507</u>
Borrowings for vehicles in production in US\$	6 - 7%	<u>47,087</u>	6 - 7%	<u>18,672</u>

Borrowings for vehicles in production represents revolving trade finance obtained from an associate of Mitsubishi Corporation, under which 90% of the purchase cost of each vehicle is paid by the Group approximately 3 months after it is ordered. The total facility at 31 December 2004 was US\$ 324,000.

As at 31 December 2004 and 2003 short-term borrowings amounting to US\$ 79,247 and US\$ 22,232 respectively were secured on inventories.

Interest expense comprises the following amounts:

	2004	2003
Interest expense on borrowings	10,681	6,929
Imputed interest from movement in provisions (Note 11)	1,188	645
Interest capitalised in construction of property, plant and equipment	(1,786)	(359)
Interest income	(133)	(85)
	<u>9,950</u>	<u>7,130</u>

13 Long-term borrowings

Long-term borrowings are in US\$ and are repayable as follows:

	Interest	2004	Interest	2003
1 to 2 years		-		-
2 to 3 years		-		-
3 to 4 years	5-6.5%	16,306		-
4 to 5 years		-	5-6.5%	16,259
Over 5 years	6.5-8.5%	9,380		-
		<u>25,686</u>		<u>16,259</u>

As at 31 December 2004 and 2003 long-term borrowings for US\$ 23,880 and US\$ 4,500 respectively were guaranteed by collateral of property, plant and equipment. The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures. The carrying amounts of long-term borrowings are similar to their fair values.

14 Income and other taxes payable

	2004	2003
Income tax	5,871	3,602
Property and other taxes	375	58
VAT payable	4,482	2,889
	<u>10,728</u>	<u>6,549</u>

15 Share capital and other equity items

	2004	2003
Share capital	<u>10</u>	<u>617</u>

Delance was incorporated with a share capital of US\$ 10, representing 10 thousand authorised and outstanding fully paid ordinary shares issued in September 2004 at a premium of 4 times the nominal amount. The balances of share capital and additional paid-in capital at earlier dates in these financial statements represent the simple aggregation of the balances relating to the companies existing at those dates that were eventually sold or transferred to Delance Limited, and the adjustment to equity described as "Formation of the Group" restates those columns to reflect the Group structure at 31 December 2004.

During 2004, the minority shareholder paid US\$ 2,415 as its share of an increase in the capital of Carnet 2000, and also received US\$ 4,677 in dividends from the same company. Other items described as distributions in the statement of changes in equity represent funds, assets or other benefits which were made available to the ultimate beneficial owner of Delance Limited.

16 Vehicles, consumables and services

	2004	2003
Vehicles purchased	817,481	362,610
Change in inventories	(85,110)	2,583
Incentives from manufacturers	(8,682)	(3,836)
Spare parts and materials used	50,900	25,529
Repairs and services	23,292	6,014
Warranty costs incurred	5,196	7,270
Other	10,184	3,363
	<u>813,261</u>	<u>403,533</u>

17 Logistics, insurance and advertising

	2004	2003
Transportation	30,928	13,713
Customs clearance, storage and related costs	15,171	6,764
Insurance	9,875	8,175
Advertising and promotion	7,850	4,808
	<u>63,824</u>	<u>33,460</u>

18 Employee compensation and benefits

	2004	2003
Salaries and wages	26,126	18,100
Bonuses	1,437	1,330
	<u>27,563</u>	<u>19,430</u>

19 Income tax expense and deferred taxes

	2004	2003
Current income tax expense	24,540	11,804
Deferred tax expense/(benefit) - origination and reversal of temporary differences	499	(1,018)
	<u>25,039</u>	<u>10,786</u>

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2004	2003
Profit before taxation	85,508	28,864
Theoretical tax charge at statutory rate of 24% (2003 – 24%)	20,522	6,927
Tax effect of items which are not deductible or assessable for taxation purposes:		
Penalties and interest	1,586	2,123
Non-deductible expenses	2,846	1,627
Effect of currency translation differences	85	109
	<u>25,039</u>	<u>10,786</u>

The majority of Group companies are incorporated in Russia, and those companies were subject to tax rates of 24% on taxable profits for both 2004 and 2003. Deferred tax assets and liabilities are measured at the rate of 24% as at 31 December 2004 and 2003. The movement on the deferred income tax account was as follows:

	2004	2003
Net deferred tax asset/(liability) at 1 January	416	(432)
Income statement (expense)/benefit	(499)	1,018
Charge to equity relating to revaluation reserve	(5,563)	-
Currency translation differences	(185)	(170)
	<u>(5,831)</u>	<u>416</u>
Net deferred tax (liability)/asset at 31 December	<u>(5,831)</u>	<u>416</u>

19 Income tax expense and deferred taxes (continued)

The movement in deferred tax assets and liabilities was as follows:

	31 December 2002	Origination and reversal	Currency translation differences	31 December 2003
Tax effects of taxable temporary differences:				
Property, plant and equipment	(1,579)	-	(125)	(1,704)
Inventories	(1,139)	(755)	(72)	(1,966)
Other	(1)	(527)	-	(528)
	<u>(2,719)</u>	<u>(1,282)</u>	<u>(197)</u>	<u>(4,198)</u>
Tax effects of deductible temporary differences:				
Accounts receivable	139	300	11	450
Employee benefits	698	509	8	1,215
Inventories	105	228	8	341
Warranty provision	1,345	1,263	-	2,608
	<u>2,287</u>	<u>2,300</u>	<u>27</u>	<u>4,614</u>
Net deferred tax (liabilities)/assets	<u>(432)</u>	<u>1,018</u>	<u>(170)</u>	<u>416</u>

	31 December 2003	Origination and reversal	Currency translation differences	31 December 2004
Tax effects of taxable temporary differences:				
Property, plant and equipment	(1,704)	(443)	(110)	(2,257)
Revaluation reserve	-	(5,563)	-	(5,563)
Inventories	(1,966)	(1,774)	(154)	(3,894)
Other	(528)	(830)	(25)	(1,383)
	<u>(4,198)</u>	<u>(8,610)</u>	<u>(289)</u>	<u>(13,097)</u>
Tax effects of deductible temporary differences:				
Accounts receivable	450	186	28	664
Employee benefits	1,215	685	20	1,920
Inventories	341	1,219	56	1,616
Warranty provision	2,608	458	-	3,066
	<u>4,614</u>	<u>2,548</u>	<u>104</u>	<u>7,266</u>
Net deferred tax (liabilities)/assets	<u>416</u>	<u>(6,062)</u>	<u>(185)</u>	<u>(5,831)</u>

Tax losses and current tax assets of one Group company may not be set off against current tax liabilities and taxable profits of another. Similarly, a deferred tax asset of one Group company is not offset against the deferred tax liability of another.

The Group has not recognised a deferred tax liability in respect of US\$ 6,078 (2003: US\$ 3,309) of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

20 Contingencies, commitments and operating risks

i Contractual commitments and guarantees

As at 31 December 2004 the Group had contractual commitments for the purchase or construction of property, plant and equipment from third parties for US\$ 5,086 (2003: US\$ 11,368).

The properties on which the Group's buildings are situated are in Moscow and St. Petersburg on land leased from the respective City Authorities under operating leases. Currently, private ownership of land is not common in those cities and in fact most land is held on a long-term leasehold basis (typically a 49 year lease with an option for a 49 year extension). The leases have varying terms and renewal rights, and an annual rent is payable to the city authorities based on indexation.

The Group has future aggregate minimum lease payment commitments under these non-cancellable operating leases, based on the latest available annual rents, as follows:

	2004	2003
Not later than one year	320	330
Later than one year and not later than five years	1,144	1,168
Later than five years	10,606	10,886
	<u>12,070</u>	<u>12,384</u>

The Group has a contractual contingent liability in relation to a business that was sold during 2004 (Note 21).

ii Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and the result of an assessment could be material to the Group. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The Group structured certain transactions so as to reduce the overall effective tax rate. As part of the conversion of its financial statements to International Financial Reporting Standards, the Group recorded certain transactions differently from the underlying statutory accounting and tax reports to reflect their economic substance.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. From time to time potential exposures are identified and at any point in time a number of open matters may exist. Management has recorded a provision in the financial statements as the best estimate of tax liabilities, and has taken active steps to reduce the possibility of such risks in the future.

iii Insurance policies

The Group holds insurance policies in relation to its assets, operations, and in respect of public liability and other insurable risks.

20 Contingencies, commitments and operating risks (continued)

iv Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the financial statements.

v Operating environment of the Group

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

21 Principal subsidiaries and disposal of business

The principal subsidiaries consolidated within the Group and the degree of control, voting rights and ownership of shares are as follows:

Entity	Country of Incorporation	Activity
100% control at 31 December 2004 and 2003		
Rolf Holdings*	Russian Federation	Import and distribution of Mitsubishi vehicles and spares
Rolf Estate*	Russian Federation	Construction and management of dealer centres
Rolf Logistics	Russian Federation	Transportation of vehicles to dealer centres
Rolf East	Russian Federation	Dealer centre
Rolf Khimki	Russian Federation	Dealer centre
Car Line	Russian Federation	Dealer centre
Rolf South	Russian Federation	Dealer centre
SP Diamant**	Russian Federation	Dealer centre
SP Rolf***	Russian Federation	Dealer centre
Audi Centre Sever	Russian Federation	Dealer centre
Brookfield Trading Limited	United Kingdom	Financing imported vehicles
60% control at 31 December 2004 and 2003		
Carnet 2000	Russian Federation	Import and distribution of Hyundai vehicles and spares

* 37.3%, ** 24% and *** 18% minority interests until December 2003.

In December 2004, the Group disposed of a car leasing business, for which 50% of the total consideration was received in early 2005, and the remainder is receivable in early 2006. The amounts included in the financial statements are made up as follows:

	2004
Total amount receivable	19,900
Probable price adjustments	(1,000)
Current portion (Note 7)	(9,940)
Discount to net present value, included under other operating expenses	(720)
Net non-current receivable	<u>8,240</u>

The group has contingent liabilities in connection with this disposal of up to \$3,500, and has accrued a provision of US \$ 1,000 against the deferred consideration in respect of a risk assessed as probable. The buyer also has an option to require the Group to repurchase the majority of the cars comprising the vehicle fleet at the end of their fixed lease periods for pre-agreed prices, which are expected to approximate market values at the time of their future purchase. No additional provision is expected to be required in this respect since the lessees are obliged to have the subject vehicles serviced by the Group during the remainder of the lease contract.

21 Principal subsidiaries and disposal of business (continued)

Profit and cash flows of the business were as follows:

	2004	2003
Sales	18,778	19,876
Total costs	(15,791)	(15,771)
Profit before tax	2,987	4,105
Taxation	(937)	(1,104)
Profit	<u>2,050</u>	<u>3,001</u>
Cash flows from operations	<u>26,200</u>	<u>21,457</u>
Cash flows from investing activities	<u>(26,289)</u>	<u>(21,287)</u>
Cash flows from financing activities	<u>339</u>	<u>(170)</u>

The disposal of the above business resulted in a negligible loss compared to the cost of the investment, and similarly a negligible tax adjustment.

22 Financial risks

i Credit risk

Financial assets which potentially subject Group companies to credit risk consist principally of trade receivables. The Group sells to retail customers on the basis of cash or bank transfer paid in advance, whereas wholesale dealers are usually allowed 2 weeks to pay for vehicles, and the ownership registration documents for vehicles are provided to them after a bank transfer has been received for the full price. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default.

ii Foreign exchange risk

The Group imports vehicles into the Russian Federation and sells them based on prices denominated in US dollars, although the customers pay in RR at the rate of exchange applicable on the date of sale of the vehicle. The Group is financed by borrowings mainly in US dollars and is thus exposed to limited foreign exchange risk. Foreign currency denominated assets (Notes 6 and 7) and liabilities (Notes 10, 12, and 13) give rise to foreign exchange exposure.

iii Interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term borrowings, and the rates are disclosed in Notes 12 and 13. The majority of interest rates on both short and long-term borrowings are fixed at their inception. The Group has no significant interest-bearing assets.

iv Fair values

Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. The fair value of these financial assets did not materially differ from their carrying amount at 31 December 2004 and 2003. At 31 December 2004 and 2003, the fair value of financial liabilities, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ from the carrying amount of these financial liabilities.