Microfinance Organization Georgian Credit LLC

Financial Statements

Together with the Auditor's Report

For the year ended 31 December 2008

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

As and for the year ended 31 December 2008

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Microfinance Organization Georgian Credit LLC (hereinafter - the Organization).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organization at 31 December 2008 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently
- Making judgments and estimates that are reasonable and prudent
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Organization will continue in business for the foreseeable future

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organization
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRS
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Organization operates
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization, and
- Preventing and detecting fraud and other irregularities

The financial statements for the year ended 31 December 2008 were approved on behalf of the management on ____________________ 2010 by:

Director ________________________________ G. Tutberidze

Financial Manager ________________________________ G. Naskidashvili

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Microfinance Organization Georgian Credit LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Microfinance Organization Georgian Credit LLC (hereinafter - the Organization), which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Microfinance Organization Georgian Credit LLC as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Zurab Lalazashvili

Managing Partner

20 May 2010

Microfinance Organization Georgian Credit LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2008

(In GEL)

	Note	2008	2007	2006
Assets				
Cash and cash equivalents	6	57,866	122,655	178,312
Gross loan portfolio	7	1,135,237	698,077	572,339
Provision for loan losses	7	(20,441)	(57,472)	(249)
Net loan portfolio	7	**1,114,796**	**640,605**	**572,090**
Interest receivable		81,652	53,687	11,275
Prepaid taxes	8	17,579	182	88
Other current assets	9	11,565	17,796	80,128
Intangible assets	10	16,367	12,365	128
Property, plant, equipment	11	38,761	25,469	22,659
Investment property	12	79,800	-	-
Deferred tax asset	17	-	-	1,063
Total Assets		**1,418,386**	**872,759**	**865,743**
Liabilities				
Accounts payable	13	3,816	709	6,041
Bonds	14	355,000	-	400,000
Interest payable		26,629	6,679	460
Tax payable	15	182	30,143	124
Borrowings	16	671,208	558,779	215,964
Deferred tax liability	17	5,814	3,820	-
Total Liabilities		**1,062,649**	**600,130**	**622,589**
Equity				
Statutory capital	18	250,000	250,000	250,000
Retained earnings		105,737	22,629	(6,846)
Total Equity		**355,737**	**272629**	**243154**
Total Liabilities and Equity		**1,418,386**	**872,759**	**865,743**

Chief Executive Officer ______________________________ G. Tutberidze

Chief Financial Officer ______________________________ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2008

(In GEL)

	Note	2008	2007
Financial revenue	19	474,838	462,497
Financial expenses		(143,121)	(123,176)
Financial margin		**331,717**	**339,321**
Changes in loan loss provision	7	37,031	(57,223)
Loans written off/recovered	20	35,662	(55,360)
Administrative expenses	21	(206,304)	(131,367)
Net-operating revenue and expenses		**198,106**	**95,371**
Other expenses	22	(55,590)	(9,579)
Net exchange gain/loss		(31,038)	(15,772)
Bad debt expenses		-	(6,274)
Net (loss/income)		**111,478**	**63,746**
Income tax expenses	23	(8,890)	(34,271)
Net profit		**102,588**	**29,475**
Other comprehensive income		-	-
Total comprehensive income (loss) for the period		**102,588**	**29,475**

Chief Executive Officer ______________________ G. Tutberidze

Chief Financial Officer ______________________ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

(In GEL)

	Note	Ordinary shares	Retained Earnings	Total
Balance at 31 December 2006		**250,000**	**(6,846)**	**243,154**
Total comprehensive income		-	29,475	29,475
Balance at 31 December 2007		**250,000**	**22,629**	**272,629**
Paid Dividend			(19,480)	(60,480)
Total comprehensive income		-	102,587	143,587
Balance at 31 December 2008		**250,000**	**105,737**	**355,737**

Chief Executive Officer ________________________________ G. Tutberidze

Chief Financial Officer ________________________________ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

Microfinance Organization Georgian Credit LLC

CASH FLOW STATEMENT

For the year ended 31 December 2008

(In GEL)

	Note	2008	2007
Cash flows from operating activities			
Income (loss) before taxation		152,478	63,747
Adjustments to:			
Depreciation and amortization		12,126	6,583
Changes in loan loss provision	7	(37,031)	57,223
Loans written off/recovered		(35,662)	54,371
Interest expenses		143,121	(123,176)
Operating cash flows before working capital changes		**235,032**	**58,748**
Decrease (Increase):			
Loan portfolio		(481,560)	(180,109)
Accounts payable		3,107	(5,332)
Interest receivable		(27,965)	(42,412)
Other current assets		6,231	62,332
Taxes payable		(54,254)	537
Cash generated from operations		**(319,409)**	**(106,236)**
Paid interests		(123,171)	129,395
Paid dividends		(60,480)	-
Net cash provided from operating activities		**(503,060)**	**23,159**
Cash flows from investing activities			
Purchase of property, plant and equipment		(22,554)	(8,119)
Purchase of intangible assets		(6,604)	(13,511)
Purchase of investment property		-	-
Net cash used in investing activities		**(29,158)**	**(21,630)**
Cash flows from financial activities			
Redemption of short-term loans		180,351	204,877
Redemption of long-term loans		(67,922)	137,938
Bounds		355,000	(400,000)
Addition share capital		-	-
Net cash used in financing activities		**467,429**	**(57,185)**
Net increase/decrease in cash and cash equivalents		**(64,789)**	**(55,656)**
Cash and cash equivalents at the beginning of the year		122,655	178,312
Cash and cash equivalents at the end of the year	**6**	**57,866**	**122,655**

Chief Executive Officer ______________________________ G. Tutberidze

Chief Financial Officer ______________________________ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

1. General information

Microfinance Organization Georgian Credit LLC represents Georgian micro finance organization. Main objectives of the fund are support and development of micro, small and medium business to improve the social and economical conditions in Georgia and ensuing small entrepreneurs by fast, easy and high-grade financial services.

Scope of Activities:

- Granting Micro-loans, including consumers, pawnshop, mortgage, unsecured, group and any other loans (credits) to legal entities and natural persons;
- Investing in government and public securities;
- Implementing of money transfer
- Discharging the function of an insurance agent;
- Providing consultations as regards to micro-crediting;
- Obtaining loans (credits) from resident and non-resident legal entities and natural persons;

The organisation was founded on 12 September 2006. The initial founders were “Business Management Bureau” Ltd and Mamuka Kajrishvili. The initial charter capital was defined in 250,000GEL with respective shares between the two parties – 75% and 25%.

The organisation has a head office in Tbilisi and two service centres. The address of the organisation is 30 Kazbegi Avenue, Tbilisi 0177, Georgia.

2. Adoption of new IFRSs

In preparing these financial statements, the following amendments to published standards and interpretations to existing standards effective in 2008 were adopted by the Organization:

- IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – capital disclosures (effective for accounting periods beginning on or after 1 January 2007). IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about market risk, credit risk and liquidity risk. Where those risks are deemed to be material to the Organization it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 ‘Financial Instruments: disclosure and presentation’. It is applicable to all entities that report under IFRS.

  The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital. The Company has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 January 2008.

The following standards, amendments, and interpretations to published standards are mandatory for

accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Organization.

- IAS 23 (amendment), 'Borrowing costs'
- IAS 39 and IFRIC 9 (amendments), 'Embedded derivatives' (effective for all periods ending on or after 30 June 2009)
- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2009)
- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
- IFRS 2 (amendment), 'Share-based payment'
- IFRS 8, 'Operating segments'1; and
- IFRIC 13, Customer Loyalty Programs (effective for accounting periods beginning on or after 1 July 2008)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008).
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007).
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009); and
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009)

3. Critical accounting estimates and judgments

The Organization makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Income taxes.** During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Organization recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Organization's belief that its tax return positions are supportable, the Organization believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Organization minimizes the risks related to this fact. The Organization believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a

series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

- **Useful lives of intangible assets and property, plant and equipment**. Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.
- **Legal proceedings. In accordance with IFRSs the Organization only recognizes a provision** where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Organization's financial position. Application of these accounting principles to legal cases requires the Organization's management to make determinations about various factual and legal matters beyond its control. The Organization reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Organization's management as to how it will respond to the litigation, claim or assessment.

4. Accounting policies

Basis of preparation

The Organization adopts IFRSs first time in 2008. IFRS 1 states that, "Entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information."

The Organization keeps its books and records in Georgian lary in accordance with the requirements to the accounting in Georgia. The aforesaid financial statements are prepared on the basis of the Organization's accounting records, which are respectively adjusted and re-classified for the reliable presentation in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. The reporting period for the Organization is the calendar year from January 1 to December 31.

Measurement and Presentation Currencies

Standing Interpretation Committee (hereinafter - SIC) included into the International Financial Reporting Standards Committee has accepted the interpretation SIC-19 "Reporting currency: measurement and presentation of financial statements under IAS-21 and IAS-29". This interpretation

determines that measurement currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to the entity. When certain currency is used to a significant extent in, or has a significant impact on, the entity, it is appropriate to use it as the measurement currency.

During its operating activities the Organization uses Georgian lary as a functional currency that has a significant impact on the Organization's transactions. As such, the Organization uses Georgian lary as the measurement currency for these financial statements.

Transactions in currencies different from the measurement currency are considered as foreign currency transactions and should be accounted in accordance with the requirement of IAS–21 “Effects of changes in foreign exchange rates”.

Effect of hyperinflation

IAS–29 “Financial reporting in hyperinflation economies” does not establish the absolute criteria for definition of hyperinflation economy. One of such criteria is when the cumulative inflation index achieves the level of 100% for last three years. Georgian inflation indexes for the last years are presented in the table below:

Period	Inflation index, %
2005	6,20
2006	9,18
2007	9,25
2008	10,00
2009	9,00

The decision as to recalculation of the financial statements under IAS–29 is taken by the Organization’s management. The Organization does not consider Georgian economy to be of hyperinflation nature and does not adjust its financial statements to the degree of change in consumer prices as at the date of its preparation.

Foreign Currencies Conversion

Assets and liabilities denominated in foreign currencies are subject to recalculation under the official exchange rates established by the National Bank of Georgia at the year-end. Exchange rate adjustments originating due to the converting are reported in the Income statement. Results denominated in foreign currencies are recalculated under the exchange rates at the date of transaction.

	Official rate of the National Bank of Georgia		
	USD	EUR	GBP
Exchange rate as at 31.12.06	1,7135	2,2562	3,3610
Exchange rate as at 31.12.07	1,5916	2,3315	3,1762
Exchange rate as at 31.12.08	1,6670	2,3640	2,4240
Average exchange rate for 2006	1,7767	2,2300	3,2701
Average exchange rate for 2007	1,6703	2,2862	3,1762
Average exchange rate for 2008	1,4902	2,1886	2,7566

Financial Instruments

Financial instruments recognized in the Organization's balance sheet include loans and receivables, cash and cash equivalents, borrowings, and other payables. Financial instruments are initially measured at fair value plus transaction costs, in the case of a financial asset or financial liability being not measured at fair value through profit and loss. Financial instruments are recognized in the balance sheet, when the Organization has become a party to the contractual arrangement of the instrument.

A financial instrument or a portion of a financial instrument is derecognized, when the Organization loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability and the amount paid or payable is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) Those that the entity upon initial recognition designates as available for sale; or

(c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

The Organization recognizes a financial asset in its statement of financial position when, and only when, the it becomes a party to the contractual provisions of the instrument; and derecognizes a financial asset when and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition.

After initial recognition, loans and receivables originated by the Organization are measured at amortized cost using the effective interest method less any provision for impairment or non-collectability.

For loans and receivables carried at amortized cost, a gain or loss is recognized in profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Provision for loan losses

The Organization assesses at the end of each reporting period whether there is any objective evidence that a loans and receivables are impaired. If any such evidence exists, the Organization determines the amount of any impairment loss. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying

amount of the asset is reduced through use of a provision account. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting a provision account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The Provision for loan losses in the balance sheet represents an estimate of possible loan losses based on the CGAP (Consultative Group to Assist the Poor) standards, which is one of the best in micro finance industry worldwide, as well as the historic analysis of loan losses conducted by the Organization's management.

Management provisions for loan losses based on annual information about loans. The provision for loan loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments. A loan becomes late as soon as a scheduled instalment is missed.

Percentage for loan loss provision is as follows:

Loan Qualification	Provisions rate	Overdue Days
Ordinary	0%	1-30
Significant	5%	30-45
Unordinary	25%	45-120
Doubtful	50%	120-180
Bad	100%	180

Loans write-off policy

Organization writes off loans only in the following cases:

- Owner of business dies and business stops functioning.
- Court receives appropriate decision.
- Delinquent loans for more than 180 days.

Write-offs are taken out of the outstanding loan portfolio and deducted from the provisions for loan loss.

Interest accrual on overdue loans

Interest income on loans is collected with monthly loan repayments. Due but unpaid interest is accrued on late loans for up to 180 days. After 180 days, late loans are classified as nonperforming and further

accrual of unpaid interest income ceases. Accrued interest on nonperforming loans, including written-off loans, is reversed out of income on an ongoing basis.

Loan portfolio quality

The MFO's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the provision for loan loss).

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, than to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

	Outstanding principal balance - as at 31 December 2008		
	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	1,088,095	397
31-45 days late	134	3,229	1
45-120 days late	3,325	31,512	3
45-180 days late	-	-	0
More than 180 days late	12,401	12,401	2
Total	**15,860**	**1,135,237**	**403**

	Outstanding principal balance - as at 31 December 2007		
	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	594,702	253
31-45 days late	5,267	25,725	2
45-120 days late	3,163	11,938	2
45-180 days late	11,688	25,021	6
More than 180 days late	39,017	40,691	6
Total	**59,135**	**698,077**	**269**

	Outstanding principal balance - as at 31 December 2008		
	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.00%	95.85%	98.51%
31-45 days late	0.01%	0.28%	0.25%
45-120 days late	0.29%	2.78%	0.74%
45-180 days late	0.00%	0.00%	0.00%
More than 180 days late	1.09%	1.09%	0.50%
Total	**1.40%**	**100.00%**	**100.00%**

	Outstanding principal balance - as at 31 December 2007		
	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.00%	85.19%	94.05%
31-45 days late	0.75%	3.69%	0.74%
45-120 days late	0.45%	1.71%	0.74%
45-180 days late	1.67%	3.58%	2.23%
More than 180 days late	5.59%	5.83%	2.23%
Total	**8.47%**	**100.00%**	**100.00%**

Cash and cash equivalents

Cash and cash equivalents include cash with bank accounts and demand deposits with banks.

Borrowings and bonds

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Organization has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense in the period in which they are incurred.

Capital

Capital includes equity capital and retained earnings.

Accounts payable

Accounts payable are given in cost value representing the amounts to be reimbursed for received goods and services.

Payables with maturity date longer than a year are shown as long term payables.

Income recognition

Revenues are recognized in the income statement if the gross inflow of economic benefits during the period arises in the course of the ordinary activities of the Organization and when those inflows result in increases in equity, other than increases relating to contributions from equity participants and can be measured reliably.

Revenue consists of loan interest, fees for loan services (revenue from financial service), penalties and other revenue.

Depending on the type and the amount of loan the Interest rates can be fixed (flat) or declining from 30% to 60% per annum.

Interest of loan accrued daily by the loan accounting software and automatically transacted to accounting software.

The interest is calculated according to the loan repayment schedule, which is individually agreed for each loan.

Interest income, penalties, fees on loan disbursement, exchange rate gains and other income are accounted on the accrual basis.

Recognition of expenses

The Organization incurs business expenses in the course of its normal operations, as well as other expenses not related to the main activity of the Organization.

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement on the basis of direct comparison of expenses incurred and income on certain items.

If economic profit is expected to arise during several reporting periods and association with income can be traced only as a whole or indirectly, expenses in the income statement are recognized based on the method of rational distribution.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Interest expenses

Interest expenses for borrowings are recognized in the income statement using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Organization estimates cash flows considering all contractual terms of

the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Property plant and equipment

All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

Group	Useful life (year)
Furnishing the leased property	3
Furniture and office equipment	7
Computers and other technical equipment	4
Building and construction	50

The month of acquisition is considered as a whole month for depreciation purpose and the month when property plant and equipment is sold is not included in the calculation of depreciation.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of Assets

The Organization's accompanying financial statements reflect the effect of the requirements of IAS 36 "Impairment of assets" in force for the reporting periods starting from January 1, 2005 and after this date. The above standard stipulates that the cost of fixed assets and intangibles should be revised when indications of possible impairment of the asset cost exist.

According to the requirements of IAS 36 the asset cost should be calculated as the higher of the net selling price or profitability of the asset use. The net selling price is the amount obtainable from the sale of an asset to non-related parties in an arm's length transaction less direct sales expenses. Profit from an asset use is the current value of expected cash flows from an asset use during its useful life and its disposal.

The above standard stipulates that during determination of an asset use profitability the Organization should apply expected cash flows which should reflect current state of an asset and present qualitative estimation made by the management regarding the totality of economic conditions existed during remaining useful life of an asset. Expected cash flows should be discounted at the rate that

reflects current market assessments of the value of money in time and risks associated with the asset.

Intangible assets

Intangible assets are stated at the amount initially recognized; less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives, as follows:

Group	Useful life (year)
Computer programmes	7
Other intangible assets	7

Deferred taxation

Current costs related to the payment of the Organization's operating activity tax are calculated in accordance with the Georgian tax legislation.

For financial reporting purposes current income tax expenses are adjusted for deferred taxes amounts originating due to temporary differences between the carrying amounts of assets and liabilities and their value accounted for taxation purposes. These adjustments result in reflection of the deferred tax assets or deferred tax liabilities.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/(recovered).

Post balance-sheet events

Post-balance sheet events and events before the date of financial statements authorization for issue that provide additional information about the Organization’s financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Organization at the balance sheet date are disclosed in the notes to the financial statements when material.

5. Financial instruments – risk management

The Organization is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk

- Other market price risk

In common with all other businesses, the Organization is exposed to risks that arise from its use of financial instruments. This note describes the Organization's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Organization, from which financial instrument risk arises, are as follows:

- Cash at bank
- Issued loans portfolio (with fixed-rate)
- Interest receivable
- Other receivables
- Received loans (with fixed-rate)
- Trade and other payables

General objectives, policies and processes

The Management has overall responsibility for the determination of the Organisation's risk management objectives and policies.

The overall objective of the Management is to set polices that seek to reduce risks as far as possible without unduly affecting the Organization's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit Risk

Credit risk is the risk of financial loss if a borrower or counterparty fails to repay the loan.

The main business of the Organization is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisations (MFO) risk management. The Organization is exposed to the credit risk when the borrower of a financial instrument fails to meet its contractual obligations. To avoid significant financial damage caused by this the Organization uses various methods to identify and manage effectively the credit risks.

Basing on the experience the Organisation uses the established credit policy which gives the following basic stages of credit risk management:

- Tasks of the Credit committee
- Monitoring of the issued loans
- Ways of working on the delinquent loans.

Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Committee is the only independent body with MFO authorized to make the final decision about financing or rejecting the loan application.

Credit Committee members are basically from the Credit Departments and Director. The Committee is headed by the Director. According to the policy, number of members on the committee does not depend on the type and size of the loan.

Before presenting to the credit committee, the risk analyser subjects the project to the credit risk analysis through evaluating the project and quality of accomplishment.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. As a result, the committee members measure the client condition against the criteria such as: credit history, financial condition, competitive ability, etc and make decision on issuing credit.

Reduction of the credit risk is also possible through securing the loan with real estate or other material values.

Assessment of the applicant's creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. The organisation does not maintain the strictly determined time-schedule for monitoring.

All amounts of the principal not repaid within the predetermined schedule or paid incompletely are qualified by the organisation as delayed loans.

First of all the credit officer should at the end of each day check the deadlines for covering principle or interest for each due client and control the payments.

Delayed loans are classified according to the overdue days and they are reserved as per the reserve policy to allow the organisation distributing the credit risk effect onto the various periods.

The Organization aims to help reduction of poverty through supporting the micro, small and medium businesses in Georgia. The target market segment for the Organisation owns the relatively low ration of creditworthiness. To neutralise the general credit risk, the Organisation has established higher interest rates than those of bank products.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Organization's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk):

Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. Organization gives all credits at fixed interest rate and respectively is never exposed to the risk of losing even small part of the interest receivables due to the market interest rate fall.

Foreign Exchange Risk

Foreign exchange risk arises through changing the value of the currency against the other currency. The Organisation takes and gives loans both in operating currency and US dollars and from 2009 in EUR. So the exchange rate risk plays vital role in determining the financial risks of the Organization. However, the fact that the Organisation receives and gives loans are mostly in the same currency helps to reduce the exchange rate risk.

Management meetings are a monthly event where the exchange rate misbalance elimination tools and options are discussed, also the preferred currency for current period loans are determined. The Organisation has established the policy which specifies reserving the existing cash funds in US dollars.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulties in meeting its financial obligations as they fall due. The providence tool of liquidity risk is to ensure that Organization will always have sufficient cash and credit recourses to allow it to meet the market demand.

The liquidity risk is low because basing on the past years statistics the issued loans are almost fully collected, hence the significantly decreasing doubtful debts percentage in the organisation's loan portfolio over the years, specifically: 5.51% in 2007, 1.08% in 2008 and 1.22% in 2009

Capital disclosures

The Organization's objectives when maintaining capital are:

- To safeguard the Organization's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Organization sets the amount of capital it requires in proportion to risk. The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Organization may adjust the amount of dividends paid to shareholders, return capital to shareholders.

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December can be presented as follows:

	2008	2007	2006
Cash on hand GEL	31,683	33,751	64
Cash on hand USD	2,659	1,588	-
Cash on hand EURO	674	1,166	-
Cash on hand GBP	-	731	-
BazisBank GEL	9,717	60,850	176,684
Liberty Bank GEL	6,743	6,580	841
Bazisbank USD	4,380	11,206	603
Liberty Bank" USD	939	6,783	121
HSBC Bank of Georgia USD	594	-	-
	57,866	**122,655**	**178,312**

7. Loan portfolio

Loan portfolio as at December 31 can be presented as follows:

	2008		2007		2006	
	Amount	Share of Total	Amount	Share of Total	Amount	Share of Total
Short-term loans						
loans in GEL	564,341	50%	340,071	49%	195,715	34%
loans in USD	93,922	8%	160,832	23%	376,461	66%
loans in EURO	-	0%	-	0%	-	0%
	658,263	**58%**	**500,903**	**72%**	**572,176**	**100%**
Long-term loans						
loans in GEL	469,964	41%	188,341	27%	-	0%
loans in USD	7,010	1%	8,833	1%	163	0%
loans in EURO	-		-		-	0%
	476,974	**42%**	**197,174**	**28%**	**163**	**0%**
Gross loan portfolio	**1,135,237**	**100%**	**698,077**	**100%**	**572,339**	**100%**
Loan loss allowance	(20,441)	2%	(57,472)	8%	(249)	0%
Net loan portfolio	**1,114,796**	**98%**	**640,605**	**92%**	**572,090**	**100%**

Calculation of Provision for loan losses in 2008 is as follows:

	Outstanding loan portfolio (principal)		Provision for loan losses	
	Amount	**Share of Total**	**Percent**	**Amount**
Normal Loans				
Current	1,088,095	95.85%		-
31-45 days late	3,229	0.28%	0.79%	161
46-120 days late	31,512	2.78%	38.54%	7,878
121-180 days late	0	0.00%	0.00%	0
More than 180 days	12,401	1.09%	60.67%	12,401
Total	**1,135,237**	**100%**	**100%**	**20,441**

Calculation of Provision for loan loss in 2007 is as follows:

	Outstanding loan portfolio (principal)		Provision for loan losses	
	Amount	**Share of Total**	**Percent**	**Amount**
Normal Loans				
Current	594,702	85.19%	-	-
31-45 days late	25,725	3.69%	2.24%	1,286
46-120 days late	11,938	1.71%	5.19%	2,984
121-180 days late	25,021	3.58%	21.77%	12,510
More than 180 days	40,691	5.83%	70.80%	40,691
Total	**698,077**	**100%**	**100%**	**57,472**

Movements in loan loss provision

	2008	2007
Provision for loan losses, 1 January	(57,472)	(249)
Changes in loan loss Provision	37,031	(57,223)
Provision for loan losses, 31 December	**(20,441)**	**(57,472)**

Information about collateral of loans granted at 31 December 2008 is as follows:

	2008	2007	2006
Loans collateralized by:			
Real estate (fair value)	3,995,779	5,209,009	856,805
Car	-	31,832	20,281
Gold (fair value)	430,201	190,746	5,140
Suretyship	266,198	168,522	6,854
Total	**4,692,178**	**5,600,109**	**889,080**

8. Prepaid assets

Tax assets as at December 31 can be presented as follows:

	2008	2007	2006
Income tax	3,380	-	34
Social tax	182	182	54
Profit Tax	14,017	-	-
	17,579	**182**	**88**

9. Other current assets

Other current assets as at December 31 can be presented as follows:

	2008	2007	2006
Trade receivable	1,154	4,142	11,776
Receivables from accountable persons	-	-	61,830
Paid advances	10,411	13,654	6,522
	11,565	**17,796**	**80,128**

10. Intangible assets

Intangible assets as at December 31 can be presented as follows:

Historical cost	Computer programs	Other intangible assets	Total
Historical cost 31.12.2006	-	**140**	**140**
Additions	11,846	1,665	**13,511**
Disposals	-	-	-
Historical cost 31.12.2007	**11,846**	**1,805**	**13,651**
Additions	6,589	15	**6,604**
Disposals	-	-	-
Historical cost 31.12.2008	**18,435**	**1,820**	**20,255**
Accumulated depreciation	-	-	-
Accumulated depreciation 31.12.2006	-	(12)	(12)
Depreciation 2007	**(1,163)**	**(111)**	**(1,274)**
Accumulated depreciation of disposal 2007	-	-	-
Accumulated depreciation 31.12.2007	**(1,163)**	**(123)**	**(1,286)**
Depreciation 2008	(2,343)	(259)	**(2,602)**
Accumulated depreciation of disposal 2008	-	-	-
Accumulated depreciation 31.12.2008	**(3,506)**	**(382)**	**(3,888)**
Net book value	-	-	-
Net book value 31.12. 2006	-	**128**	**128**
Net book value 31.12. 2007	**10,683**	**1,682**	**12,365**
Net book value 31.12. 2008	**14,929**	**1,438**	**16,367**

11. Property, plant, equipment

Property, plant, equipment as at December 31 can be presented as follows:

Historical cost	Furnishing the leased property	Computers and other technical equipment	Furniture and office equipment	Other fixed assets	Total
Historical cost 31.12.2006	-	**8,133**	**16,550**	**1,471**	**24,683**
Additions	-	5,645	2,474	-	**8,119**
Disposals	-	-	-	-	**-**
Historical cost 31.12.2007	-	**13,778**	**19,024**	**1,471**	**32,802**
Additions	4,658	4,955	12,942	-	**22,555**
Disposals	-	-	-	-	**-**
Historical cost 31.12.2008	**4,658**	**18,733**	**31,966**	**1,471**	**55,357**
Accumulated depreciation	-	-	-	-	**-**
Accumulated depreciation 31.12.2006	**-**	**(1,044)**	**(980)**	**-**	**(2,024)**
Depreciation 2007	-	(2,767)	(2,542)	-	**(5,309)**
Accumulated depreciation of disposal 2007	-	-	-	-	**-**
Accumulated depreciation 31.12.2007	-	**(3,811)**	**(3,522)**	**-**	**(7,333)**
Depreciation 2008	(1,043)	(4,352)	(3,868)	-	**(9,262)**
Accumulated depreciation of disposal 2008	-	-	-	-	**-**
Accumulated depreciation 31.12.2008	**(1,043)**	**(8,163)**	**(7,390)**	**-**	**(16,596)**
Net book value	-	-	-	-	**-**
Net book value 31.12. 2006	**-**	**7,089**	**15,570**	**1,471**	**22,659**
Net book value 31.12. 2007	**-**	**9,967**	**15,502**	**1,471**	**25,469**
Net book value 31.12. 2008	**3,615**	**10,570**	**24,576**	**1,471**	**38,761**

12. Investment property

In 2008 MFO "Georgian Credit" LLC received a flat and land worth 46,000GEL and 34,062GEL respectively instead of the unpaid loan. This property is used for securing the loans and attracting the cash funds by the organisation and is qualified as the investment property of the organization.

13. Account payables

Account payables as at December 31 can be presented as follows:

	2008	2007	2006
Trade payables	3,733	704	6,041
Other payables	83	5	-
	3,816	**709**	**6,041**

14. Bond

In May 2008 the organisation issued securities (bounds) worth 400,000GEL. Owners of these bounds were various legal entities and individuals. Out of this 45,000GEL liability was covered the same year 2008. The rest - 355,000GEL bonds will be covered next year, in 2009.

15. Tax payables

	2008	2007	2006
Property Tax	182	725	124
Profit tax payable	-	29,388	-
Income tax	-	30	-
	182	**30,143**	**124**

16. Borrowings

	2008	2007	2006
Short-term borrowings			
Borrowings from physical persons	342,586	272,796	102,900
Bazisbank	-	35,983	113,064
Kor Standard Bank	-	-	-
	342,586	**308,779**	**215,964**
Current portion of long-term loan			
Bazisbank	195,398	112,062	-
HSBC	63,207	-	-
	258,605	**112,062**	**-**
Long-term Borrowings			
Bazisbank	21,397	137,938	-
HSBC	48,620	-	-
	70,017	**137,938**	**-**
	671,208	**558,779**	**215,964**

17. Deferred tax liability/Asset

Recognized liabilities subject to deferred taxation as at December 31 can be presented as follows:

	2008	2007	2006
At 1 January	(3,820)	1,063	-
Recognized in profit and loss	-	-	-
Tax income (expense)	(1,993)	(4,884)	1,063
Recognized in other comprehensive income	-	-	-
At 31 December	**(5,813)**	**(3,821)**	**1,063**

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2008	2008	2008	2008	2008
Property plant and equipment	-	(5,814)	(5,814)	(1,994)	-
Tax asset/(liabilities)	-	(5,814)	(5,814)	(1,994)	-
Set off of tax	(5,814)	5,814		-	-
Net tax assets/(liabilities)	(5,814)	-	(5,814)	(1,994)	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2007	2007	2007	2007	2007
Property plant and equipment	-	(3,820)	(3,820)	(3,820)	
Intangible assets	-	-	-	3,399	
Borrowings	-	-	-	(4,462)	
Tax asset/(liabilities)	-	(3,820)	(3,820)	(4,884)	-
Set off of tax	(3,820)	3,820		-	-
Net tax assets/(liabilities)	(3,820)	-	(3,820)	(4,884)	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2006	2006	2006	2006	2006
Property plant and equipment	-	(3,399)	(3,399)	(3,399)	
Tax asset/(liabilities)	4,462	(3,399)	1,063	1,063	-
Set off of tax	(3,399)	3,399		-	-
Net tax assets/(liabilities)	**1,063**	**-**	**1,063**	**1,063**	**-**

18. Statutory capital

The organisation was founded on 12 September 2006. The initial founders were "Business Management Bureau" Ltd and Mamuka Kajrishvili. The initial charter capital was defined in 250,000GEL with respective shares between the two parties – 75% and 25%.

19. Financial revenue

Financial revenue for the year ended December 31, 2009 can be presented as follows:

	2008	2007
Operational Revenue	21	-
Revenue from loans	465,211	418,417
Income from penalties	7,247	30,201
Income from commission	22	4,339
Income from exchange rate difference	2,267	9,045
Income from the fee	70	450
Income from Imedi-L polices	-	45
	474,838	**462,497**

20. Loans written off/recovered

	2008	2007
Loans written off	(23,706)	(55,360)
Loans recovered	59,368	
	35,662	**(55,360)**

21. Administrative expenses

Administrative expenses for the year ended December 31, 2009 can be presented as follows:

	2008	2007
Communal expenses	(4,316)	(2,278)
Communication expenses	(3,969)	(2,165)
Salaries and bonuses	(105,765)	(63,898)
Advertisement expenses	(6,115)	(4,517)
Lease expenses	(51,912)	(32,756)
Stationery	(2,513)	(2,636)
Other general expenses	(4,157)	(1,606)
Security expenses	(4,416)	(2,148)
belongings expenses	(957)	-
Audit and consulting services fees	(2,000)	-
depreciation expenses	(12,126)	(6,583)
Social benefits	-	(12,780)
Expenses for credit-info's service	(5,791)	-
Computer expenses	(2,267)	-
	(206,304)	**(131,367)**

22. Other expenses

	2008	2007
Representative expenses	(1,818)	(1,631)
Other expenses	(4,318)	(2,482)
Charity expenses	(5,000)	-
Bank fee	(3,454)	(5,465)
Cash loss from robbery	(41,000)	-
	(55,590)	**(9,579)**

23. Income tax expenses

Income tax expenses for the year ended December 31, 2008 can be presented as follows:

Profit tax expense	**2008**	**2007**
Current tax	(6,896)	(29,388)
Effect of temporary differences	(1,994)	(4,884)
Effect of changes in tax rate	-	-
Profit tax expense	**(8,890)**	**(34,271)**

Profit tax expense	**2008**	**2007**
Profit before profit tax	152,478	63,747
Applicable tax rate	-	-
Theoretical income tax	(22,872)	(9,562)
Effect of changes in not recognized deferred tax and tax effect of expenses that are not include for tax purposes	13,982	(24,709)
Profit tax expense	**(8,890)**	**(34,271)**

24. Contingencies

Georgian economic trends

Georgian economy is still inherent in features and risks of developing market. These features include inadequately developed business infrastructure and normative base regulating activities of entities, limited convertibility of the national currency and limitations of performance of foreign currency transactions as well as the low level of liquidity on the capital market. The Government has undertaken certain measures targeted at such issues, however up to this moment the reforms necessary to establish financial, legal and regulatory systems are not completed yet.

Tax System

Among the recent reforms performed after the “Rose Revolution” the most significant were: reduction of administrative corruption, new wave of privatization, approval of the new Tax Code, which experts believe to be more liberal. Transparency of the modern political process, participation of the shareholders in establishment of new liberal business-environment (for instance, consulting between the government and industrialists in development of the new tax code), provisioning new regulations that bring lobbying of interests of groups within the framework of legislation – all of that created the

necessary prerequisites for fair competition and minimized non-economical factors of risk and unpredictability.

The new Tax Code cancelled certain generating taxes on low income by reducing the number of taxes from 21 to 8. VAT rate was reduced from 20% to 18% and tax for payroll fund – from 33% to 20%. Income tax rate for individuals was fixed as 12% instead of marginal rates within 12-20%. Losses caused by reduction of taxes are planned to be compensated against excise duties, extension of tax base (reducing the number of tax exempts) and also by improvement of administration in area of more strict execution of tax requirements.

Though it must be mentioned that the significant changes were made in Tax Legislation at the end of 2007, according to which from 2008 the profit tax was reduced from 20% to 15 %, the social tax was abolished and the income tax was increased from 12% to 25 %. From 2008 the personal income tax changed again and reduced from 25% to 20 %. Non-resident income tax is abolished on the payments to reinsurers. Income tax on paid dividends and interests is reduced from 10% to 5% from 2009. Also non-resident income tax rate is reduced from 10% to 7, 5% from 2009.

One more principal distinction of the new Tax Code is its administrative part, which more precisely determines possible tax violations and penalties and also provides flexible scheme for issue settlement. Administration of tax collection was significantly improved even in the old Tax Code. This is the result of reforms in tax and custom departments. Improved institutional possibilities will assist the government to properly apply the new Tax Code.

Legal Liabilities

In the course of its business activity the Organization deals with court suits and claims. The management of the Organization is convinced that the ultimate responsibility for the commitments, which might result from suits and claims, should they arise, will not have any significant effect to the financial position or future business transactions of the Organization.

25. Going Concern Assumption

The Organization's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Respective, the financial statements do not include any adjustments related to the recorded asset amounts that would have been necessary should the Organization either had been unable to continue as a going concern or if the Organization had disposed the assets outside the normal course of its operating plan.

26. Post balance sheet events

Post balance sheet events occurred in the company:

Non-adjusting events:

On 3 July 2009 the organization underwent reorganisation and instead of "Business Management Bureau" Ltd the founders of the organisation were determined: "Consulting Group GT" Ltd and "Baad

Group" Ltd. Charter capital remained the same, but the shares were allocated as follows: "Consulting Group GT" Ltd – 37.5%, "Baad Group" Ltd – 37.5% and Mamuka Kajrishvili – 25%.

As a result of second reorganization on 3 November 2009 the founder of the organization became EMIC Invest GbR – a organization acting under German law incorporated in Germany. Charter capital was defined in 749,273GEL and allocated in following shares: "Consulting Group GT" Ltd – 18.375%, "Baad Group" Ltd – 18.375%, Mamuka Kajrishvili – 12.25% and EMIC Invest GbR – 51%.