Renaissance

Russia Distressed Assets Limited

Consolidated Financial Statements 2011
International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report for the year ended 31 December 2011

Contents

Directors and other information

Directors	David PM Blair John S Elder James Keyes
Registered office	Jayla Place Wickhams Cay 1 Road Town Tortola VG1110 British Virgin Islands
Investment Manager *(before 16 April 2012)*	Renaissance Capital Investment Management Jayla Place Wickhams Cay I Road Town Tortola VG11010 British Virgin Islands
Investment Manager *(after 16 April 2012)*	Renaissance Asset Managers (Guernsey) Limited Block F Hirzel Court St Peter Port Guernsey GY1 2NH
Prime broker and custodian	Renaissance Advisory Services Limited Canon's Court 22 Victoria Street Hamilton, HM 12 Bermuda
Administrator, registrar, transfer agent and company secretary	Custom House Global Fund Services Limited Tigne Towers Tigne Street Sliema SLM 3172 Malta
Independent auditors	Ernst & Young LLC Sadovnicheskaya Nab., 77, bld. 1 Moscow 115035 Russia
Bankers	JP Morgan Chase Bank N.A. 125 London Wall London United Kingdom
	Raiffeisen Bank Triotskaya str., 17, bld. 1 Moscow 1290090 Russia
General legal advisors *United Kingdom & U.S. law*	Akin Gump Strauss Hauer & Feld City Point, Level 32 One Ropemaker Street London EC2Y 9AW United Kingdom
Bermuda law	Appleby Corporate Services Limited Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda

Directors and other information

General legal advisors *(continued)*
British Virgin Islands law

Appleby Corporate Services Limited
Jayla Place
Wickhams Cay 1
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British Virgin Islands

Investment Manager's report

Renaissance Russia Distressed Assets Limited

In 2011 the Renaissance Capital Investment Management continued its work towards orderly exits from existing investments with a view of liquidating Renaissance Russia Distressed Assets Limited (the "Fund"). On the back of successful exits the Fund distributed US$37.71 per share bringing the total distribution to US$73.02 per share.

The largest exposure of the Fund continued to be to real estate property (more than 95%). Last year the Fund successfully closed the deals initiated in 2010 and managed to sell two extra real estate lots all of which were sold at or close to asking prices. One lot (771 sq.m., modern warehouse) was sold at US$2110 per sq.m., the second lot (1608 sq.m., class B warehouse and office block) was sold at US$2,515 per sq.m. The average pledge value was US$1,000.

In respect of collection on the non-performing bonds the Fund managed to recover legal expenses incurred in connection with legal case against the OGO Agroindustrial Company, though the amount was not substantial, US$3,557.

Finally, the Fund continued collecting on the four non-performing loan portfolios that it currently holds. The total collections on loans last year totalled US$250,000 (net) or 40% of the purchase price. The performance varied from 19% to 480%, the performance on the biggest portfolio was 32%.

At the end of the year 2011 the Fund held three lots of real estate properties and some residual non-performing loans on its books. In 2011 the Fund was seeking to sell the remaining office space (3,235 s.q.m) at US$3,000 per sq. m. and the warehouse (977 sq.m) at US$1000 per sq. m. However, due to the challenging market conditions, low quality of the remaining lots and its high maintenance fees the Fund took a decision to gradually reduce the price with an ultimate goal to find buyers in 2012. It also terminated the agreement with less efficient brokers and signed new agent contacts, initiated direct sale to potential buyers and started using other selling channels. The activist approach has already generated some results in spring 2012. Therefore, the Investment Manager recommended to the Board of Directors that the term of the Fund is extended until 30 June 2013. This was approved by the Board of Directors and the Articles of Association were amended respectively.

Renaissance Asset Managers (Guernsey) Limited

27 June 2012

Ernst & Young

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Independent auditors' report

To the holders of participating shares and Board of Directors of
Renaissance Russia Distressed Assets Limited

We have audited the accompanying consolidated financial statements of Renaissance Russia Distressed Assets Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Renaissance Russia Distressed Assets Limited and its subsidiaries as at 31 December 2011, and their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

27 June 2012

Consolidated statement of comprehensive income

(stated in thousands of United States dollars)

	Notes	For the year ended 31 December 2011	2010
Results from operations			
Interest income			
-Loans and receivables		134	272
-Current accounts with bank		3	3
Total interest income		**137**	**275**
Unrealised (loss)/gain from real estate	14	(3,631)	4,891
Realised gain on sale of real estate		31	871
Rent income	14	21	222
Net foreign exchange loss		(233)	(39)
Other income		-	7
Total (loss)/gain from operations		**(3,675)**	**6,227**
Expenses			
Management fees	10	(254)	(260)
Administration fees	11	(30)	(26)
Reversal/(charge) of allowance for loan impairment	8	252	(4)
Performance fees reversal/(charge)	10	987	(1,418)
Maintenance fees	14	(345)	-
Other operating expenses	7	(865)	(392)
Total expenses		**(255)**	**(2,100)**
Operating (loss)/profit, before finance costs		**(3,930)**	**4,127**
Finance costs			
Distributions to holders of non-voting participating shares	12	(7,800)	(1,000)
Operating (loss)/profit for the year		**(11,730)**	**3,127**
Income tax expense	13	(14)	(39)
(Decrease)/increase in net assets attributable to holders of non-voting participating shares from operations		**(11,744)**	**3,088**

There was no other comprehensive income during the year ended 31 December 2011 and 31 December 2010.

Consolidated statement of financial position

(stated in thousands of United States dollars)

	Notes	At 31 December 2011	2010
Assets			
Cash and cash equivalents	5	297	624
Due from broker	6	3	3
Loans and receivables	8	164	247
Trade and other receivables	14	-	3,900
Real estate investments	14	10,682	19,948
Other assets		9	-
Total assets		**11,155**	**24,722**
Liabilities			
Dividends payable		-	(95)
Management fees payable	10	(51)	(71)
Performance fees payable	10	(431)	(1,418)
Other accounts payable and accrued expenses		(170)	(191)
Amounts payable to related party	9	(3,200)	(3,900)
Total liabilities, excluding net assets attributable to holders of non-voting participating shares		**(3,852)**	**(5,675)**
Net assets attributable to holders of non-voting participating shares	15	**7,303**	**19,047**
Represented by:			
Net asset value per non-voting participating share based on 206,790 (2010: 206,790) shares outstanding (in US Dollars)	12,15	**35.32**	**92.11**

The consolidated financial statements were signed and authorised for release by the Board of Directors on 27 June 2012:

John Elder

Director

David Blair

Director

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in net assets attributable to holders of non-voting participating shares

(stated in thousands of United States dollars)

	Notes	**Number of non-voting participating shares**	**Net assets attributable to holders of non-voting participating shares (calculated in accordance with IFRS)**
Balance at 1 January 2010		206,790	15,959
Increase in net assets attributable to holders of non-voting participating shares from operations		-	**3,088**
Balance at 31 December 2010	*12*	**206,790**	**19,047**
Decrease in net assets attributable to holders of non-voting participating shares from operations		-	**(11,744)**
Balance at 31 December 2011	*12*	**206,790**	**7,303**

Consolidated statement of cash flows

(stated in thousands of United States dollars)

	For the year ended 31 December 2011	2010
Cash flows from operating activities		
(Decrease)/increase in net assets attributable to holders of non-voting participating shares from operations	(11,744)	3,088
Adjustments to reconcile (decrease)/increase in net assets attributable to holders of non-voting participating shares from operations to net cash from operating activities		
Distributions to holders of non-voting participating	7,800	1,000
Unrealised losses/(gains) from real estate investments	3,631	(5,762)
	(313)	**(1,674)**
Net changes in operating assets and liabilities		
Decrease in due from broker	-	1
Decrease/ (increase) in trade and other receivables	50	(4)
Decrease in loans and receivables	83	913
(Increase)/decrease in other assets	(9)	7
Increase in dividends payable	-	95
(Decrease)/increase in performance fees payable	(987)	1,418
(Decrease)/increase in management fees payable	(20)	3
Decrease in amounts payable to related party	(700)	(1,850)
(Decrease)/increase in other accounts payable and accrued expenses	(21)	13
Net cash used in operating activities	**(1,917)**	**(1,078)**
Cash flows from investing activities		
Net movement on real estate transactions	9,485	1,898
Net cash flows provided by investing activities	**9,485**	**1,898**
Cash flows from financing activities		
Distributions paid to holders of non-voting participating shares	(7,895)	(1,000)
Net cash flows used in financing activities	**(7,895)**	**(1,000)**
Net decrease in cash and cash equivalents	**(327)**	**(180)**
Cash and cash equivalents at the beginning of the year	624	804
Cash and cash equivalents at the end of the year	**297**	**624**

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Corporate information

These consolidated financial statements include the financial statements of Renaissance Russia Distressed Assets Limited (the “Company”) and its subsidiaries, Melado Enterprises Limited (“Melado”) and Asental Investments Limited (“Asental”), together referred to as the “Fund”.

The Company is an investment company incorporated with limited liability on 23 October 2007 under the laws of the British Virgin Islands. It is a closed-end investment vehicle under British Virgin Islands law and as such is not a regulated entity under the Mutual Funds Act of 1996 (as amended) of the British Virgin Islands. The Company's initial term maturing 31 December 2009 was extended in 2009 until 31 December 2010. In 2011 the Board of Directors approved further extension of the Company's term until 31 December 2012 and in 2012 it was further extended to 30 June 2013 by amending of the Articles of Association of the Company.

The Company’s shares are listed on the Bermuda Stock Exchange.

The Fund executes the majority of its investments through its subsidiaries, Melado and Asental. Details of entities included in the consolidated financial statements as of 31 December 2011 and 2010 are presented below:

	Holding/voting %				
Subsidiary	**31 December 2011**	**31 December 2010**	**Country**	**Date of incorporation**	**Date of acquisition/ establishment**
Melado Enterprises Limited	100%	100%	Cyprus	26 September 2007	26 September 2007
Asental Investments Limited	50%*	50%*	Cyprus	5 September 2007	30 March 2009

*See notes 2.1(c)(i) and 9 – Asental is consolidated by the Company on a 100% basis due to the provisions included in an agreement with a related party under which the risks and benefits of ownership flow to the Company.

The overall investment objective of the Fund is to achieve medium-term capital appreciation through investment into listed and unlisted financial instruments, equities, bonds, loan agreements, standard loan portfolios, promissory notes, other debt instruments, pledges and securitisation instruments of companies in default in various sectors of Russia, the other states within the Commonwealth of Independent States (the “CIS”) and the Baltic States. The Fund is focused primarily on distressed instruments.

The Fund may also invest in forward contracts, futures, options, and other types of derivatives, may purchase securities on margin, may sell securities short and may engage in repurchase transactions, stock borrowing, lending and other similar transactions. The Fund may also invest in government and corporate debt instruments for investment purposes and as a substitute for cash positions. As at 31 December 2011 and 2010 the Fund invested in bonds, loans and real estate only.

The CIS has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CIS involve risks, which do not typically exist in other markets. The accompanying consolidated financial statements reflect management’s assessment of the impact of the CIS business environment on the operations and the consolidated financial position of the Fund. The future business environment may differ from management’s assessment.

The Fund’s registered office is Jayla Place, Wickhams Cay I, Road Town, Tortola VG1110, British Virgin Islands.

As at 31 December 2011 and 31 December 2010, the Fund has no employees.

Renaissance Capital Investment Management Limited was the Investment Manager of the Company and the Parent for the period under reporting.

The Fund’s prime broker and custodian is Renaissance Advisory Services Limited (the “Prime Broker”; the “Custodian”). The Fund’s administrator is Custom House Global Fund Services Limited (the “Administrator”).

The consolidated financial statements of the Fund for year ended 31 December 2011 were authorised for issue by the Fund’s Directors on 27 June 2012.

2.1. Basis of preparation

(a) General

The consolidated financial statements have been prepared on a historical cost basis, except as disclosed in the accounting polices below.

The consolidated financial statements are presented in United States dollars ("US Dollar"), which is the functional and presentation currency of the Fund. The non-voting participating shares of the Fund are issued in US Dollar and the Fund's investing activities are primarily conducted in US Dollar.

IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are detailed in note 3. The US Dollar amounts in the consolidated financial statements are presented in thousands ("US$").

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB. The accounting policies applied in preparation of the consolidated financial statements and detailed below have been applied consistently to the years presented.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Fund. The Fund had two subsidiaries during the year and as at the reporting date, Melado and Asental. Separate financial statements, prepared in accordance with IFRS and with a 31 December year end, are issued for the both subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions are obtained and cease to be consolidated when control is transferred out of the Company.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The functional and presentation currency of the subsidiaries is the same as the Company. These consolidated financial statements comprise the financial results of the Company and the subsidiaries.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

2.2. Summary of significant accounting policies

(a) Financial instruments

(i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through profit or loss is sub-divided into:

Preparation of the consolidated financial statements in conformity with International Financial Reporting Standards

- *Financial assets and liabilities held for trading*

  Financial assets and liabilities at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. Derivatives are always classified as held for trading. The financial assets and liabilities held for trading are measured at fair value. Gains or losses on financial assets and liabilities at fair value held for trading are recognised in the consolidated statement of comprehensive income. Derivative financial instruments, if any, entered into by the Fund do not meet the hedge accounting criteria as defined by IAS 39. Consequently, hedge accounting is not applied by the Fund.

- *Financial assets and liabilities designated as at fair value through profit or loss upon initial recognition*

  These include equity securities and debt instruments that are not held for trading. These financial assets and liabilities are initially designated on the basis that they are part of a group of financial assets and liabilities which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Company's Offering Memorandum. The vast majority of these financial assets and liabilities are expected to be realised within 12 months of the reporting date.

  The Fund held no financial assets or financial liabilities at fair value through profit or loss as at 31 December 2011 and 2010.

- *Financial assets at amortised cost*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category debt securities, classified as loans and receivables, loans and amounts relating to short-term receivables and other assets.

- *Financial liabilities at amortised cost*

  The Fund includes in this category other payables including management fees and other accounts payable and accrued expenses.

(ii) Recognition

The Fund recognises financial assets and liabilities on the date it becomes party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Fund commits to purchase or sell the asset.

(iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or

- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and

- Either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated. Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the consolidated statement of comprehensive income.

Loans and receivables and other financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue.

(v) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value.

Loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a 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 through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees 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.

(b) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Where the Fund has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or ask price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm’s length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

(c) Impairment of financial assets

At each reporting date the Fund assesses whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income as “Charge of allowance for loan impairment”.

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the “Charge of allowance for loan impairment”.

Interest revenue on impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

See note 8 for details for further details.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(e) Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at each period end using currency rate established by the Central Bank of the Russian Federation.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss, if any, are included in the consolidated statement of comprehensive income as part of the “Net gain on debt securities designated at fair value through profit or loss”. Exchange differences, if any, on other financial instruments are included in the consolidated statement of comprehensive income as “Net foreign exchange (loss)”.

(f) Due to and due from broker

Amounts due to broker are negative balances on brokerage accounts and amounts payable for securities purchased (in regular way transactions) that have been contracted for but not yet delivered on the reporting date. Interest on negative brokerage account balances, if any, is recognised as interest expense in the consolidated statement of comprehensive income as it is accrued.

Amounts due from broker include positive balances on brokerage accounts and margin accounts. Margin accounts represent cash deposits held with broker as collateral against open futures contracts. Interest on positive brokerage account balances is recognised as interest income in the consolidated statement of comprehensive income as it is accrued.

(g) Non-voting participating shares

The Company’s shares are not redeemable at the option of the holders of non-voting participating shares but may be repurchased at the option of the Company. In case of winding-up of the Company the shares carry a right to a return of the nominal amount paid up in respect of such shares and surplus assets remaining.

The Company has issued one class of non-voting participating shares and one class of Founder shares. The Founder shares are subordinate to all other classes of instruments and as such the non-voting participating shares do not meet the criteria of an equity instrument under IAS 32 and are classified as a financial liability.

The liabilities arising from the non-voting participating shares are carried at the redemption amount being the net asset value calculated in accordance with IFRS.

For the purpose of calculating the net assets attributable to holders of non-voting participating shares in accordance with the Company’s Offering Memorandum, the value of securities which are quoted or dealt in on any stock exchange is based on the mid price.

This valuation of net assets value is different from the IFRS valuation requirements. The difference between the two valuations is reported in note 15.

The Company’s net asset value per share is calculated by dividing the net assets attributable to holders of non-voting participating shares (calculated in accordance with redemption requirements) by the number of shares in issue.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts, short-term deposits in banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered “cash and cash equivalents”.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Interest income and interest expense

Interest income and expense are recognised in the consolidated statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

In additional to financial instrument balances, interest income and expense include interest on bank and broker balances, interest from loans and receivables and interest from debt securities designated at fair value through profit or loss.

(j) Dividend income and expense

Dividend income is recognised when the Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes.

Dividend expense relating to equity securities sold short is recognised when the Fund's obligation to make the payment is established.

(k) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis. Legal and audit fees are included within "Other operating expenses".

(l) Income taxes

There are no taxes on income, profits or capital gains in the British Virgin Islands. Income tax expense may arise on a level of the Subsidiaries registered in Cyprus.

(m) Distributions to holders of non-voting participating shares

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of portfolio investments disposed of by the Fund and may reinvest all or a part of such net proceeds in new portfolio investments. The Fund is entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings.

All distributions are paid out to the holders of non-voting participating shares pro rata in proportion to their shareholding. The Directors may determine whether and to what extent a distribution will be made in the form of dividends or as a partial compulsory redemption of shares.

The distributions are recognised as finance costs within the consolidated statement of comprehensive income.

(n) Operating leases – Fund as a lessor

Leases where the Fund does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. The Fund presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Rental income arising from operating leases on real estate property is accounted for on a straight–line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(o) Real estate investments

Real estate investments are classified as investment property in accordance with IAS 40 Investment Property. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statements of comprehensive income in the period in which they arise. Fair values are evaluated annually by the Investment Manager using industry-accepted valuation techniques.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Fund accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Fund's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Fund's accounting policies, management has made the following judgements and estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Functional currency

The primary objective of the Fund is to generate returns in US Dollar, its capital-raising currency. The Fund's performance is evaluated in US Dollar. Therefore, the management considers the US Dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Allowance for loans impairment

The Fund regularly reviews its loans and receivables to assess impairment. The Fund uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Fund estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Fund uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Valuation of real estate investments

The real estate properties are valued annually, at the year end date, based on Investment Manager projections on timing and the prices of real estate sales.

The determination of the fair value of real estate investments requires the use of estimates such as future cash flows from assets and discount rates applicable to those assets.

Volatility in the global financial system is reflected in commercial real estate markets. There was a significant reduction in transaction volumes in 2010 and, to a lesser extent, into 2011. Therefore in arriving at their estimates of market values as at 31 December 2011 and 2010, the Investment Manager used its knowledge used by the value and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property.

The significant methods and assumptions used by the valuers in estimating the fair value if investment property are set out in note 14.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded.

The Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective investment's domicile. As the Fund assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

As of 31 December 2011 and 2010, the fund did not recognise deferred tax asset in respect of tax losses.

4. Standards, Interpretations and amendments issued but not yet effective

A number of new standards, amendments to standards and interpretations that have been issued to date are not yet effective for the financial statements of the Fund for the period ended 31 December 2011, and have not been applied nor early adopted in preparing these financial statements.

The standards, amendments and interpretations issued but not yet effective at the date of the issuance of the Fund's financial statements are listed below:

IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Fund's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. As the Fund has no subsidiaries, this amendment has no impact on the Fund's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Fund has no associates or joint venture investments, this amendment has no impact on the Fund's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Fund's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The completion of this project is expected during the first half of 2012.

The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Fund's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Fund will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also replaces SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. This amendment has no impact on the Fund's financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Fund. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Fund is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

All other new standards and interpretations have been considered but are not relevant to the Fund and have therefore not been disclosed.

5. Cash and cash equivalents

	31 December 2011	**31 December 2010**
	US$	**US$**
Cash on current bank account	297	624

Cash is held with JP Morgan Chase Bank N.A. and Raiffeisen Bank. For details of currency and counterparty risk exposure, refer to note 17.

6. Due from broker

	31 December 2011	**31 December 2010**
	US$	**US$**
Broker - positive balance	3	3

Balances due from broker comprise cash and cash collateral balances with the Fund's broker, Renaissance Advisory Services Limited (Bermuda). Brokers charge interest on positive account balance at 2% p.a.

7. Other operating expenses

	For the year ended 31 December 2011 US$	2010 US$
Agency fees	612	-
Property tax	64	82
Audit fees	54	68
Legal fees	49	136
Directors' fees	15	31
Value added tax	-	34
Other Expenses	71	41
Total other operating expenses	**865**	**392**

During the year 2011, Asental paid US$ 612 (2010: US$ Nil) for agency services related to sale of real estate investments.

8. Loans and receivables

As at 31 December 2011 and 31 December 2010 loans and receivables comprised:

	31 December 2011 US$	31 December 2010 US$
Distressed bonds	2,101	2,219
Distressed retail loans	1,849	2,066
Gross loans granted	**3,950**	**4,285**
Allowance for impairment	(3,786)	(4,038)
Net loans granted	**164**	**247**

As at 31 December 2011, the Fund held one impaired bond of a Russian company, which was acquired at a significantly discounted value (2010: 1 bond). As at 1 January 2010, the Fund held a bond of OGO Agroindustrial Company, which was paid in 2010. In September 2010, the Fund recovered in full the principal and interest on the OGO Agroindustrial Company Bond and received an amount of US$769.

During 2011 the Fund recognized recovery of impairment on bonds amounting to US$119 (2010: US$17), due to positive currency revaluation.

In July and December 2008, the Fund purchased the rights to 100% of the cash flows arising on portfolios of non-performing fixed rate retail loans, for cash consideration of US$3,058. As of 31 December 2011 respective payments received in cash by the Fund amounted to US$250 (2010: US$375). During the year 2011, the Fund recognised a reversal of impairment relating to these portfolios amounting to US$133 (2010: charge of US$21).

Allowance for impairment of loans and receivables

A reconciliation of the allowance for impairment of loans granted is as follows:

	Distressed bonds	Portfolios of distressed retail loans purchased	Total
	US$	US$	US$
At 1 January 2011	2,219	1,819	4,038
(Recovery)/charge for the year	(119)	(133)	(252)
At 31 December 2011	**2,100**	**1,686**	**3,786**
Individual impairment	2,100	1,686	3,786
Collective impairment	-	-	-
	2,100	**1,686**	**3,786**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,101	1,849	3,950
	US$	US$	US$
At 1 January 2010	2,236	1,798	4,034
(Recovery)/charge for the year	(17)	21	4
At 31 December 2010	**2,219**	**1,819**	**4,038**
Individual impairment	2,219	1,819	4,038
Collective impairment	-	-	-
	2,219	**1,819**	**4,038**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,219	2,066	4,285

9. Amounts payable to related party

As of 31 December 2008, the Fund granted a loan secured by real estate property – office and warehouse building located in Moscow (project Onyx). This loan matured on 1 January 2009 and bore interest of 67% per annum. In accordance with terms of the respective collateral agreement, the Fund was not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral. Allowance for impairment recognised at 31 December 2009 amounted to US$1,963. On 2 January 2009 the secured loan became overdue. On 30 March 2009, the Fund repossessed the real estate property pledged under this loan by taking over 50% share in Asental, the sole owner of this property.

Asental owns real estate property located in Moscow, Russia. The Fund considered acquisition of Asental as acquisition of an asset, no goodwill was recognised in the consolidated financial statements.

The residual 50% of voting shares of Asental were owned by a related party which financed the other part of secured loan. Based on shareholders agreement concluded between the Fund and the related party the real estate property should be sold to recover outstanding claims in respect of the secured loan financed by the related party but not exceeding US$11,000. Respective liability was recognised by the Fund. During the year 2011 amount of US$700 (2010: US$1,850) was repaid to the related party using proceeds from sale of part of the real estate property. As of 31 December 2011 payable to related party amounted to US$3,200 (2010: US$3,900).

10. Management and performance fees

Under the terms of the investment management agreement, the Investment Manager is paid a management fee equal to 2% p.a. of the net asset value, calculated in accordance with the Company's Offering Memorandum, as at the close of business on each business day. The fees are accrued daily and are payable quarterly in arrears. During the year management fees of US$254 (2010: US$260) were incurred of which US$51 (2010: US$71) was outstanding as at 31 December 2011.

The Fund will also pay to the Investment Manager a performance fee equal to 20% of the total increase in the net asset value, calculated in accordance with the Company's Offering Memorandum, per participating share over the initial offering price. Such performance fee, if owed, will be on the occurrence of a crystallisation event in relation to each relevant participating; namely any redemption or repurchase of that participating share, whether on, or in anticipation of, the winding up of the Fund or otherwise.

The performance fee is calculated and accrued on a daily basis. Pursuant to a resolution of the Directors of the Company dated the 13 December 2010, the Investment Manager's performance fee was calculated as an amount equal to 20% of the total increase in the net asset value per share over US$64.69. The change came into effect as 23 December 2010. Pursuant to a resolution of the Directors dated 8 September 2011, the Investment Manager's performance fees are calculated as an amount equal to 20% of the total increase in the net asset value per share over USD 26.97.

For the year ending 31 December 2011 performance fees of US$987 (2010: fees of US$1,418 were incurred) were refunded. At the year end performance fees payable amounted to US$431 (2010: US$1,418).

11. Administration fees

Under the terms of the administration agreement, an administration fee is paid quarterly in arrears to the Administrator. The administration fee is equal to:

- 0.2% of the net asset value of the Fund if such net asset value is below US$ 50 million;
- 0.15% if such asset value is between US$ 50 million and US$ 200 million;
- 0.10% if between US$ 200 million and US$ 400 million;
- 0.075% if the net asset value exceeds US$ 400 million.

During the year ended 31 December 2011, fees of US$30 (2010: US$26) were incurred of which US$3 (2010: US$13) was outstanding at year end.

12. Non-voting participating shares

Incorporation and share capital

The Company is authorised to issue 100 non-participating voting founder shares of US Dollar 0.01 each and 4,999,900 profit participating, non-voting participating shares of US Dollar 0.01 each. The Investment Manager owns 100% of the founder shares.

As of 31 December 2011 and 2010 100 founder shares have been issued at US Dollar 0.01 each and 206,790 profit participating, non-voting participating shares have been issued at US Dollar 0.01 each. During the year 2011 and 2010 there were no movements in number of participation shares. The Company does not have any externally imposed capital requirements.

Rights of the founder shares

The founder shares carry no right to any dividend and on liquidation they will rank equally for return of the subscription price paid up on them after the return of the subscription price paid up on the non-voting participating shares. Founder shares carry the right to one vote each. Founder shares may not be redeemed.

Rights of the non-voting participating shares

The non-voting participating shares do not carry a right to vote except in relation to separate class rights upon any variation of rights attaching to the shares in which case, each share carries the right to one vote. The non-voting participating shares are entitled to dividends.

The non-voting participating shares are not redeemable at the option of the holders of non-voting participating shares but may be repurchased at the option of the Company. At their absolute discretion, the Directors may repurchase shares pursuant to request from a shareholder, in accordance with applicable law and resolutions which have been adopted by the Company.

Winding up

The non-voting participating shares carry a right to a return of the subscription price paid up in respect of such shares in priority to any return of the subscription price paid up in respect of founder shares, and an exclusive right to share in surplus assets remaining after the return of the subscription price paid up on the non-voting participating shares and founder shares.

Distributions

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of investments disposed of by the Fund and may reinvest all or part of such net proceeds in new investments. The Fund will be entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings.

All distributions will be paid out to the holders of participating shares pro rata in proportion to their shareholding. The Directors may determine whether and to what extent a distribution will be made in the form of dividends or as a partial compulsory redemption of non-voting participating shares.

In the year 2011, US$7,800 (2010: US$1,000) of dividends was distributed to the holders of non-voting participating shares, equivalent to US$37.72 (2010: US$4.84) per non-voting participating share in issue.

Capital management

As a result of the ability to issue and redeem non-voting participating shares, the capital of the Fund can vary depending on the demand for subscriptions to and redemptions from the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and redemption of non-voting participating shares.

The Company's objectives for managing capital are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in its Offering Memorandum;
- To achieve consistent returns while safeguarding capital by investing in diversified portfolio;
- To maintain sufficient liquidity to meet the expenses of the Company as they arise;
- To maintain sufficient size to make the operation of the Company cost-efficient.

13. Taxation

The operations of the Fund are subject to multiple taxation jurisdictions, as follows:

BVI

At present, the BVI imposes no taxes on income, profits, capital gains or appreciation of the Fund. There are also no taxes currently imposed in the BVI on income, profits, capital gains or appreciation in the non-voting participating shares, nor any taxes on the holders of non-voting participating shares in the nature of estate duty, inheritance or capital transfers tax.

The Company is registered in the BVI as tax exempt company.

Cyprus

No taxation arose for Asental during the year. Melado and Asental are subject to corporation tax under the laws of Cyprus on its taxable profits at the rate of 10% as tax law is applicable to both companies. Capital gains derived on sale of securities are tax exempted (except for capital gains realised in connection with sale of shares in companies deriving their fair value or the greater part of their value from immovable property located in Cyprus.

Under certain conditions interest may be subject to defense contributions at the rate of 15% (10% up to 30 April 2011). Dividends received from abroad are subject to defence contributions at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011 and 17% thereafter), if the interest of shareholding in the company from which dividends are received is less than 1%.

A reconciliation of income tax applicable to profit from operating activities before income tax at the statutory income tax rates to income tax expenses at the Fund's effective income tax rate is presented in the following table:

	For the year ended 31 December	
	2011	2010
	US$	US$
Accounting (loss)/income before tax	(11,730)	3,127
Theoretical tax expense calculated at the Fund's statutory tax rate (0%)	-	-
Tax effect of income of subsidiaries taxed at other rates	445	(348)
Tax effect of non-deductible expenses for tax purposes	(428)	(220)
Tax effect of tax exempt income	55	479
Losses brought forward	-	319
Losses carried forward	(72)	(230)
Withholding tax	(14)	(39)
Income tax expense	**(14)**	**(39)**

14. Real estate investments

As of 31 December 2011 and 2010, real estate investments were represented by the real estate property, which the Fund repossessed under the secured loan (see note 9).

Rental income received from the real estate property during the year 2011 and 2010 amounted to US$21 (2010: US$222). As at 31 December 2011, trade and other receivables amounts relating to the real estate investments amounted to US$Nil (2010: US$3,900).

Direct maintenance expenses arising from the investment property in 2011 amounted to US$345 (2010: US$Nil), of which US$208 related to direct expenses from investment property, that generated rent income.

The Fund had no restrictions on the realisability of its investment property and no contractual obligations to either purchase, construct or develop investment property or for repairs, maintenance and enhancements.

The real estate investments are stated at fair value which has been determined by the Investment Manager. The basis for valuation was the income capitalisation approach, which considers income and expense data relating to the property being valued and estimates value capitalisation process.

The table below presents a reconciliation of the opening and closing investment property balances:

	31 December 2011	31 December 2010
	US$	US$
Balance at 1 January	**19,948**	**19,431**
Disposals	(5,666)	(4,374)
Fair value adjustment	(3,600)	4,891
Balance at 31 December	**10,682**	**19,948**

The intention of the Investment Manager to dispose of the real estate assets at the earliest possible opportunity does not impact the valuation of those assets as the disposal is expected to occur in an organised and timely manner.

15. Reconciliation of audited net asset value as per IFRS to net asset value as reported to holders of non-voting participating shares

In accordance with the terms of the Offering Memorandum the Fund reports its net assets on a daily basis. As a result of the preparation of these consolidated financial statements certain adjustments have been recorded to the net assets as previously reported in order to comply with IFRS. These differences are presented below:

- An impairment of loans has been recognised;
- An adjustment of amortised cost of loans and receivables;
- An adjustment of unrealised foreign exchange loss on loans and receivables;
- Other adjustments have been recorded; and
- Consolidation of subsidiary.

The following table provides a reconciliation of the net assets attributable to holders of non-voting participating shares as previously reported to the net assets attributable to holders of non-voting participating shares as disclosed in these consolidated financial statements.

	31 December 2011 US$	31 December 2010 US$
Net assets as reported to holders of non-voting participating shares	10,273	13,308
Fair value adjustment	-	(310)
Adjustment of amortized cost of loans and receivables	116	177
Accrual adjustments	909	(1,418)
Consolidation of subsidiary	(4,002)	6,888
Other adjustments	7	402
Adjusted net assets as per the IFRS consolidated financial statements	**7,303**	**19,047**
Total number of non-voting participating shares in issue	206,790	206,790
Net asset value per non-voting participating share as reported to holders of non-voting participating shares (US Dollars)	**49.68**	**65.36**
Effect of adjustments per non-voting participating share (US Dollars)	(14.36)	26.75
Adjusted net asset value per non-voting participating share per the consolidated financial statements (US Dollars)	**35.32**	**92.11**

16. Related parties

In accordance with IAS 24 Related Party Disclosures 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Fund's related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

During the year the Fund was involved in transactions with related parties which are classified as follows:

- Directors – the list of the Fund's Directors is shown on page 1.
- Investment Manager - Renaissance Capital Investment Management Limited.
- Entities under common control.

During the years ended 31 December 2011 and 31 December 2010 the Company was involved in transactions with related parties under common control of Renaissance Group Holdings Limited (Bermuda), which is also the ultimate parent company of the Investment Manager.

The following table presents the transactions and balances with the related parties identified above

Consolidated statement of financial position	Nature of related party	31 December 2011	31 December 2010
		US$	US$
Assets			
Due from broker	Other entities under common control with the Investment Manager	3	3
Liabilities			
Amounts payable to related party	Other entities under common control with the Investment Manager	3,200	3,900
Management fees payable	Investment Manager	51	71
Performance fees payable	Investment Manager	431	1,418
Other accounts payable and accrued expenses	Directors	-	15

Consolidated statement of comprehensive income	Nature of related party	2011	2010
		US$	US$
Expense			
Performance fee reversal/(charge)	Investment Manager	987	(1,418)
Management fees	Investment Manager	(254)	(260)
Operating expenses	Directors	(15)	(31)

In addition to the transactions above, the Investment Manager holds the founder shares issued by the Company (see note 12).

17. Financial risk management

General

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limited and other controls. The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most significant type of financial risk to which the Fund is exposed is credit risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Fund's strategic planning process.

According to its investment strategy the Fund aims to achieve medium-term capital growth by making investments into listed and unlisted financial instruments, equities, bonds, loan agreements, standard loan portfolios, promissory notes, other debt instruments, pledges and securitisation instruments of companies in default. Investments are made in various sectors in Russia, and the other members of the CIS and the Baltic States. The Fund focuses primarily on distressed instruments.

The Fund may also invest in forward contracts, futures, options, and other types of derivatives, may purchase securities on margin, may sell securities short and may engage in repurchase transactions, stock borrowing, lending and other similar transactions. The Fund may also occasionally invest in government and corporate debt instruments of foreign issuers, when deemed appropriate.

The Directors of the Fund may amend the investment objective and policies of the Fund if they determine such amendment to be in the best interests of the holders of non-voting participating shares as a whole.

Asset allocation is determined by the Investment Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Investment Manager’s Compliance Controller.

The Fund’s investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed are credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk).

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Fund are discussed below.

Credit risk

Credit risk represents the potential loss that the Fund would incur if counterparties to a financial instrument failed to perform pursuant to the terms of their obligations to the Fund. Credit risk is generally higher when a non-exchange-traded financial instrument is involved, because the counterparty is not backed by an exchange clearing house.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. This relates also to loans and receivables carried at amortised cost. Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Maximum exposure	**31 December 2011**	**31 December 2010**
	US$	**US$**
Cash and cash equivalents	297	624
Due from broker	3	3
Loans and receivables	164	247
Trade and other receivables	-	3,900
Other assets	9	-
Total credit risk exposure	**473**	**4,774**

The credit quality of financial assets is managed based on international credit ratings of counterparties, determined by Standard and Poor’s, Moody’s or Fitch. The following table shows the credit quality by class of asset for loan-related lines of consolidated statement of financial position, based on the Fund’s credit risk monitoring approach.

	Neither past due nor impaired				
31 December 2011	**A+**	**A**	**Not rated**	**Past due and individually impaired**	**Total**
	US$	**US$**	**US$**	**US$**	**US$**
Cash and cash equivalents	52	245	-	-	297
Due from broker	-	-	3	-	3
Other assets	-	-	9	-	9
Loans and receivables:					
Distressed bonds	-	-	-	2,101	2,101
Distressed retail loans	-	-	-	1,849	1,849
Total	**52**	**245**	**12**	**3,950**	**4,259**

	Neither past due nor impaired				
31 December 2010	**A**	**AA-**	**Not rated**	**Past due and individually impaired**	**Total**
	US$	**US$**	**US$**	**US$**	**US$**
Cash and cash equivalents	127	497	-	-	624
Due from broker	-	-	3	-	3
Trade and other receivables	-	-	3,900	-	3,900
Loans and receivables:					
Distressed bonds	-	-	-	2,219	2,219
Distressed retail loans	-	-	-	2,066	2,066
Total	**127**	**497**	**3,903**	**4,285**	**8,812**

As of 31 December 2011 and 2010, the Fund had no assets which were overdue but not impaired. As of 31 December 2011 and 2010, the carrying amount of renegotiated financial assets that were past due and impaired comprised US$ Nil.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, infringement of the original terms of the contract or bankruptcy of the borrower. The Fund addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Fund determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Credit risk arising on transactions with broker relates to transactions awaiting settlement. Non-delivery risk, prepayment risk and pre-settlement risk, incurred in non-exchange-settled transaction, are subject to monitoring. The risks are aggregated and utilised against counterparty limit. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the broker used. The prime broker of the Fund is Renaissance Advisory Services Limited (Bermuda). The Fund monitors the credit ratings and financial positions of the broker used to further mitigate this risk. As at 31 December 2011 and 2010, the Fund had no unsettled transactions.

The distressed bonds owned by the Fund are held by Renaissance Advisory Services Limited (Bermuda). Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the custodian the Fund uses.

Substantially a major part of the cash is held by the Fund is held with JP Morgan Chase, N.A. to facilitate redemption and other payments. The Fund also established a bank accounts with Raiffeisen Bank to facilitate any payments or proceeds received in Russian Rubles. Bankruptcy or insolvency of these banks may cause the Fund's rights in respect of the cash held by the banks to be delayed or limited. The Fund manages its risk by monitoring the credit quality and financial position of the banks.

Geographical concentration

The geographical concentration of financial asset and financial liabilities is presented in the tables below:

	31 December 2011			
All amounts stated in US$	**Russia and CIS**	**BVI**	**Other**	**Total**
Assets				
Cash and cash equivalents	245	-	52	297
Due from broker	-	-	3	3
Loans and receivables	164	-	-	164
Other assets	-	-	9	9
	409	**-**	**64**	**473**
Liabilities				
Management fee payable	-	51	-	51
Performance fees payable	-	431	-	431
Other accounts payable and accrued expenses	156	-	14	170
Amounts payable to related party	-	3,200	-	3,200
	156	**3,682**	**14**	**3,852**
Net consolidated financial position	**253**	**(3,682)**	**50**	**(3,379)**

	31 December 2010			
All amounts stated in US$	**Russia and CIS**	**BVI**	**Other**	**Total**
Assets				
Cash and cash equivalents	127	-	497	624
Due from broker	-	-	3	3
Loans and receivables	247	-	-	247
Trade and other receivables	3,900	-	-	3,900
	4,274	**-**	**500**	**4,774**
Liabilities				
Dividends payable	-	-	95	95
Management fee payable	-	71	-	71
Performance fees payable	-	1,418	-	1,418
Other accounts payable and accrued expenses	148	-	43	191
Amounts payable to related party	-	3,900	-	3,900
	148	**5,389**	**138**	**5,675**
Net consolidated financial position	**4,126**	**(5,389)**	**362**	**(901)**

Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected.

The Company had an original term of two years. At each annual general meeting of the Company falling after 31 December 2010 the term of the Company may be extended. Prior to the expiration of the Company's term, the net assets will not be distributed to holders of non-voting participating shares.

The Company's Offering Memorandum does not provide for the redemption of the non-voting participating shares at the option of the holders of non-voting participating shares and the Fund is therefore not exposed to the liquidity risk of meeting redemptions for holders of non-voting participating shares upon the cancellation time. The current liquidity requirements including payments of operating expenses and fees are managed in accordance with policies and procedures in place. The Fund uses detailed cash flow forecasting, carried out by the Treasury department of the Investment Manager, which allows to control and manage its liquidity and undertake proper measures if liquidity shortages or excessive liquidity are anticipated.

The table below summarises the maturity profile of the Company's assets and liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2011	**Less than 12 months**	**More than 12 months**	**Total**
Financial assets	**US$**	**US$**	**US$**
Cash and cash equivalents	297	-	297
Due from broker	3	-	3
Loans and receivables	164	-	164
Real estate investments	-	10,682	10,682
Other assets	9	-	9
Total undiscounted assets	**473**	**10,682**	**11,155**
Financial liabilities			
Management fees payable	51	-	51
Performance fees payable	431	-	431
Other accounts payable and accrued expenses	170	-	170
Amounts payable to related party*	-	3,200	3,200
Total undiscounted liabilities	**652**	**3,200**	**3,852**
Liquidity gap	**(179)**	**7,482**	

31 December 2010	**Less than 12 months**	**More than 12 months**	**Total**
Financial assets	**US$**	**US$**	**US$**
Cash and cash equivalents	624	-	624
Due from broker	3	-	3
Loans and receivables	247	-	247
Trade and other receivables	3,900	-	3,900
Real estate investments	-	19,948	19,948
Total undiscounted assets	**4,774**	**19,948**	**24,722**
Financial liabilities			
Dividends payable	95	-	95
Management fees payable	71	-	71
Performance fees payable	1,418	-	1,418
Other accounts payable and accrued expenses	191	-	191
Amounts payable to related party*	-	3,900	3,900
Total undiscounted liabilities	**1,775**	**3,900**	**5,675**
Liquidity gap	**2,999**	**16,048**	

* While the amount payable to the related party could be due at a notice period of seven days, in fact the amount payable will not be due until there is real estate disposal realising cash to settle the payable; the timing of such disposals is uncertain.

The Fund is a closed ended fund and therefore the net assets attributable to holders of non-voting participating shares is not subject to liquidity risk and consequently is not presented in the table above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The maximum risk resulting from financial instruments, except for written options and securities sold short, equals their fair value.

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk.

The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The investment objective of the Fund is disclosed in note 1.

Currency risk

The Fund may invest in financial instruments denominated in currencies other than its functional currency – US Dollars. According to the Fund's investment policy, it may invest in securities and other instruments that are principally denominated in Russian Rubles. Consequently, the Fund may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than US Dollars, but the Investment Manager does not intend to seek to hedge the Fund's currency risks. If the Investment Manager were to seek to hedge against such risks there can be no assurance that such hedging transactions would be effective or beneficial.

Normally, any cash balances or proceeds in Russian Rubles and other non-US dollar currencies are immediately converted into US Dollars.

Sensitivity analysis is based on consideration of up and down scenario according to parameters stated in the following table:

Year	**Currency**	**UP Scenario**	**DOWN Scenario**
2011	RUR	13%	13%
2010	RUR	9%	9%

As of 31 December 2011 and 2010, had the foreign currencies changed their exchange rates in accordance with reasonable possible changes provided in the table above, with all other variables held constant, net assets attributable to shareholders and profit and loss of the Fund would have changed by the amounts shown below:

	31 December 2011	**31 December 2010**
	US$	**US$**
UP Scenario	35	31
DOWN Scenario	(35)	(31)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Cash and cash equivalents are represented by current bank accounts not exposed to interest rate risk.

As at 31 December 2011 and 2010 the Fund has no interest-bearing financial assets and liabilities at floating rates. The Fund's placements and borrowings are within related parties at fixed rates, the expectation of re-pricing is low. Therefore, the Fund has limited exposure to interest rate fluctuations and does not have specific policies and procedures for managing interest rate risk.

Other price risk

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

During the year 2011 and 2010 the Fund had no transactions with equity investments; accordingly, the Fund has limited exposure to other price fluctuations and does not have specific policies and procedures for managing other price risk.

18. Fair value of financial instruments

The Following describes the methodologies and assumptions used to determine fair values of financial instruments:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is determined by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

For distressed loans and receivables the fair value calculated based on discounted cash flow approach also approximates carrying value as of 31 December 2011 and 2010.

19. Commitments and contingencies

Operating environment

As previously noted the Fund's activity is mainly focused on investments in distressed assets in Russia:

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Fund's debtors' ability to repay the amounts due to the Fund. To the extent that information is available, the Fund has reflected revised estimates of expected future cash flows in its impairment assessment.

While the Management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Fund's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Fund is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Fund.

20. Events after the reporting date

On 16 April 2012, the Company appointed Renaissance Asset managers (Guernsey) Limited to implement the investment strategy of the Company. Renaissance Asset Managers (Guernsey) Limited is an investment management company incorporated under the laws of Guernsey.

On 24 May 2012, the Board of Directors approved further extension of the Company's term until 30 June 2013 by amending of the Articles of Association of the Company.

21. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Directors on 27 June 2012.