UKRPRODUCT GROUP LTD

Annual report and financial statements 2004

Ukrproduct Group Ltd

Dairy Trading Corp	CJSC Ukrproduct Group	LinkStar Limited
export subsidiary	main operating subsidiary	trademarks holding subsidiary

With a land surface of 604,000 square kilometres, Ukraine is Europe's second largest country. It is also the fastest growing European economy, with a GDP growth rate of 12% in 2004 (2003: 10%).

In 2004 Ukraine's population of 47 million people consumed an estimated 36,000 tonnes of processed cheese and 41,000 tonnes of packaged butter

of which

12,300 tonnes (~33%) of processed cheese and 9,200 tonnes (~23%) of packaged butter were supplied by Ukrproduct Group.

In November–December 2004, Ukraine witnessed the "Orange revolution", a now famous, peaceful climax of the popular movement which replaced the outdated political regime with a vibrant democracy taking dynamic strides westwards.

CORPORATE STATEMENT

UKRPRODUCT GROUP LTD IS A UKRAINE-BASED PRODUCER AND DISTRIBUTOR OF BRANDED DAIRY FOODS. THE GROUP IS THE LEADER IN ITS TWO CORE BUSINESS SEGMENTS, ACCOUNTING FOR AN ESTIMATED 33% OF THE PROCESSED CHEESE MARKET AND 23% OF THE PACKAGED BUTTER MARKET IN UKRAINE.

UKRPRODUCT IS ONE OF THE FASTEST GROWING COMPANIES IN ITS MARKETS, WITH COMPOUND ANNUAL SALES GROWTH OF 55% DURING 2001–2004. WITH A MISSION TO SUPPLY BRANDED QUALITY FOOD PRODUCTS AT AFFORDABLE PRICES TO CUSTOMERS IN UKRAINE AND ABROAD, UKRPRODUCT IS INTERNATIONAL IN ITS OUTLOOK, COMPETITIVE IN ITS ATTITUDE AND SOCIALLY RESPONSIBLE IN ITS APPROACH.

UKRPRODUCT GROUP LTD BECAME A PUBLIC COMPANY ON 11 FEBRUARY 2005, PLACING 27.2% OF ITS SHARE CAPITAL ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE ("AIM"). THIS DOCUMENT IS THE FIRST ANNUAL REPORT TO BE PUBLISHED BY THE COMPANY AFTER THIS EVENT.

HIGHLIGHTS

Jan 2004	Ukrproduct's UAH 10 million (GBP 1.1 million) bond issue is fully subscribed. The Group initiates the flotation process of admission to AIM.
Apr 2004	The Group introduces the ISO 9001 imprint on the packaging of its products, in order to demonstrate its commitment to quality. Stockbroker WH Ireland Ltd appointed to advise the Group on the flotation process. The Antimonopoly Committee of Ukraine consents to incorporation of closed joint-stock company Ukrproduct Group Ukraine, the Group's main operating unit.
May 2004	The Group's corporate logo and style are awarded first prize for design in the all-FSU Advertising Festival. In order to prepare the Group for flotation on AIM, a corporate structuring programme is launched. The construction of the new workshop for processed cheese production is commenced.
Aug 2004	Ukrproduct Group celebrates its fifth anniversary.
Sep 2004	New trading subsidiary in the northern region of Ukraine (Kharkiv) is established.
Oct 2004	A variety of new flavoured cheeses are introduced to widen the product range of the Group.
Nov 2004	Dr Jack Rowell is appointed as the Non-executive Chairman of the Board. Ukrproduct Logistics, a logistics and supply chain management company, is formally established to develop the service business of the Group.
Dec 2004	The Group registers a 54% sales growth in FY2004, maintaining margins and increasing market share in all core business segments.

CHAIRMAN'S STATEMENT

OUR PROVEN BUSINESS MODEL, TOGETHER WITH THE SUCCESS IN A DYNAMICALLY EVOLVING ENVIRONMENT, SUPPORTS OUR CONFIDENCE THAT WE WILL BE ABLE TO IMPROVE PERFORMANCE YET FURTHER, FOR THE LONG-TERM BENEFIT OF SHAREHOLDERS.

I am delighted to present the first annual report of Ukrproduct Group following its admission to AIM. The Board and management team have worked hard to sustain the Group's growth going forward and we are confident of our ability to deliver value to shareholders.

OVERVIEW

During 2004, Ukrproduct Group continued to demonstrate sustained growth. We are maintaining our momentum and are a step ahead of the competition. During the year under review, we successfully launched many initiatives to create a strong, integrated food and service group. These included construction of a new cheese production facility, corporate restructuring of the Group and further expansion of our distribution network.

The Group successfully achieved the challenging targets set out by the Board and remains one of the most profitable and dynamic food businesses in Ukraine. Net sales increased by 54%, to £27 million, accompanied by improved profit margins. Excellent progress has been made in our core business segments, adding a further 10% and 5% respectively to our already leading positions in the Ukrainian processed cheese and packaged butter markets.

STRATEGY

Our long-term ability to compete in the constantly and evolving business environment will depend crucially on developing the Group's product offering to customers. Having grown organically to become the leader in our core business segments, we now need to pick up the pace of investment in order to remain competitive in the future.

On the production side, the Group continues to develop its core capabilities and aims to expand into another attractive area. The Group has for some time been analysing potential investment opportunities in the large, higher-margin and fast-growing hard cheese sector. We intend to secure a foothold in this area during 2006–2007.

On the service side, the Group plans to capitalise on its existing distribution network and to develop further the logistics and supply chain management services offered to third parties. This business activity is becoming increasingly important for companies operating in Ukraine, where the supply chain development is in its infancy; due to high domestic economic growth, demand for these services is growing rapidly.

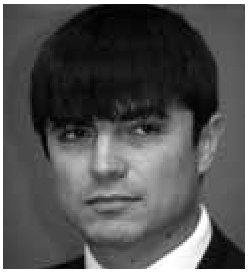
CORPORATE GOVERNANCE

The current Board was formed during the year to address strategic issues and to provide overall guidance for the management of the Group. The Board is committed to ensuring best practice in corporate governance, through the monitoring and development of appropriate internal controls. With regards to the Board composition going forward, Paul Williams decided not to offer himself for election as a Director in order to be able to pursue other business interests. I am grateful to Paul for his contribution to the success of the Group's flotation on AIM this year and, on behalf of the Board, wish him every success in the future.

2004 has been an eventful year for both management and staff, and on behalf of the Board I would like to express my appreciation for their efforts, which are essential to the Group's continuing success.

Dr Jack Rowell OBE
Non-executive Chairman
3 June 2005

CHIEF EXECUTIVE'S STATEMENT



THE YEAR MARKED A SUBSTANTIAL STEP FORWARD IN ALL GROUP ACTIVITIES.

2004 was a breakthrough year for the Group. Continuing modernisation of the plants, expanded geographic coverage of sales, further expansion of the Group's market share and further margin growth in the core segments are all the welcome hallmarks of a dynamically developing business.

The structuring of our activities prior to our admission to AIM allowed your Board to improve the Group's business processes and to attain significant gains in operating efficiency. In May, the Group commenced the construction of a new, state-of-the-art manufacturing facility at Molochnik, the Group's flagship plant for processed cheese in Zhitomyr. The building programme is expected to take a year, after which production capacity will increase to 2,000 tonnes of processed cheese per month. This will be the largest ever capacity increase in the Group's history – and it will strengthen the Group's position as the leading processed cheese manufacturer in Ukraine. Additionally, our rapid expansion necessitated the establishment of Ukrproduct Logistics, the Group's division dedicated both to the logistical support of other Group companies and to the provision of transport and distribution services to third parties. This service component of the Group's business is of growing importance and we are keen to expand this area into a major profit-generating centre.

OPERATING REVIEW

Throughout the period, Molochnik performed well, producing 12,300 (FY2003: 6,700) tonnes of processed cheese and 6,100 (FY2003: 4,450) tonnes of packaged butter. Our second manufacturing facility at Starakonstantinov produced 3,500 (FY2003: 2,990) tonnes of skimmed milk powder and 3,100 (FY2003: 1,700) tonnes of packaged butter. Although Ukrproduct's market position strengthened in all product segments, processed cheese sales did exceptionally well, and we believe our market share is now close to 33%.

In September 2004, a new regional distribution centre in Kharkiv became operational – another step in the development of our pan-Ukrainian distribution network. This now comprises eight regional depots and a central warehouse in Zhitomyr. The rapid growth of the Group was supported by further development of the existing distribution network and the launch of direct delivery and merchandising programmes in five big cities, each with a population of over one million – Dnepropetrovsk, Donetsk, Kyiv, Lviv and Odessa.

The Group continued its successful practice of the forward storage of raw milk derivatives, thereby benefiting from the differentials in protein content and prices, between summer and winter seasons. This practice ensures stability of supply of raw materials for the whole year. The total amount used in forward storage was 1,700 tonnes in the year under review. In 2005, we plan to increase this figure to 4,000 tonnes in order to satisfy growing demand.

MARKET

The dairy-based foods market in Ukraine continues to register accelerated growth, supported by sustained growth of consumer purchasing power, as well as by the increasing sophistication of producers' offerings. Even after years of double-digit growth, per capita consumption of dairy-based foods remains relatively low in Ukraine in comparison with other East European countries. This indicates the potential of this market for the future. Although the competition in our principal segments is gradually increasing, the Group's business model provides a platform for the maintenance of its leading position.

PROSPECTS

Development of new business opportunities has been a key point of focus for the Board and management team during the year.

The growth of the hard cheese market and its relatively high level of fragmentation has created an opportunity for the Group to enter this segment, based on using our traditional strengths in production, quality control, branding and distribution. We are currently assessing options for construction of a brand-new hard cheese plant, to become operational in 2006/2007.

As part of the Group's quality improvement plans we are also planning to install a new standardisation line for raw materials at Molochnik in summer 2005.

Growing volumes of the distribution of both own produce and third-party goods require that Ukrproduct constantly upgrade its warehousing facilities. The Group is now preparing a plan for building a new hub warehouse near Zhitomyr with a surface area of 20,000 square metres, three-quarters of which will be temperature-controlled. We plan to complete this project in 2007.

Following the year end, the Company succeeded in raising £6 million through a placing of its shares on AIM in February 2005. We intend to use these funds to augment our working capital, to redeem our domestic high-coupon debt and to facilitate the capital expenditure programme which is essential for our expansion.

OUTLOOK

We have a clearly defined plan for further development and growth, which is aimed at maximising shareholder value.

We will continue to serve our customers by focussing on quality, price and convenience.

Over the next few years we shall continue to review the efficiency of our operations based on scale, improved logistical and sales capabilities, as well as via penetration of more profitable business segments.

The year marked a substantial step forward in all Group activities. This step would not have been possible without the commitment and dedication of each of our 1,200 employees. I would like to thank them as a team and each of them personally for their efforts and contribution in sustaining Ukrproduct Group's leading position in our markets.

Sergey Evlanchik
Chief Executive Officer
3 June 2005

FINANCIAL REVIEW

2004 WAS YET ANOTHER YEAR OF PROFITABLE GROWTH FOR THE GROUP. ITS FINANCIAL POSITION WAS ENHANCED, THE UNDERLYING BUSINESS CONTINUED TO DEVELOP DYNAMICALLY IN ALL SEGMENTS OF OPERATIONS, AND THE GROUP WAS CAREFUL IN CONTROLLING THE COSTS OF EXPANSION.

Summary:

- Sales: £27.1 million (2003: £17.6 million)
- Gross profit: £4.4 million (2003: £2.4 million)
- EBITDA: £2.6 million (2003: £1.4 million)
- PBT: £1.8 million (2003: £1.3 million)
- Net profit: £1.5 million (2003: £1.1 million)
- Gross margin: 16.3% (2003: 13.5%)
- Earnings per share: 4.8 pence (2003: 3.7 pence)

SALES

Sales of £27.1 million for the period under review comprised the following product segments:

Processed cheese	£10.1 million
Packaged butter	£9.5 million
Skimmed milk powder	£5.4 million
Other products	£1.9 million
Services	£0.2 million

Sales grew by 54% over the previous year, facilitated mainly by the Group's expanding distribution network and well thought-out branding and promotional strategies. With regards to the sales dynamic, in the year the Group observed the continuing growth of the Ukrainian economy supported by the ongoing structural reforms, prudent monetary policies of the central bank and the rising affluence of consumers.

GROSS PROFIT

The Group's gross profit of £4.4 million in 2004 has significantly increased in comparison with the previous year, both as a result of sales growth and the increase in scale of the Group's buying power with its suppliers of raw materials. Gross profit margin has also improved significantly, following the Group's successful implementation of the raw materials forward storage programme for the 2004–2005 season.

EBITDA

Profit before interest, tax, depreciation and amortisation of £2.6 million was up 86% over the prior year. The growth in EBITDA was achieved through profitable expansion of the Group's sales, timely mitigation of the seasonal (winter 2004) increase in prices of raw materials, and careful control of general and administrative expenses.

PBT

Profit before tax also increased markedly in 2004 albeit at a slower rate than the increase in EBITDA. The main factor behind the slower rate of increase was the higher depreciation charge in 2004 due to the Group's ongoing modernisation programme and revaluation of fixed assets. Also, the Group incurred greater interest expense which was necessary to support the continuing growth of its borrowing requirement.

NET PROFIT

Net profit was recorded at £1.4 million, an increase of 27% over the previous year. There were two reasons for the slower rate of growth in the Group's net profit compared to 2003. Firstly, an exceptional item in the form of a waiver of debt of the Group to a related party in 2003 – treated as income according to International Accounting Standards – created a higher comparative base for net income in 2003. Secondly, the Group's effective tax rate increased in 2004 as a result of corporate restructuring and consolidation of the tax base in preparation for admission to AIM.

EARNINGS PER SHARE

The Group's earnings per share in FY2004 was 4.8 pence (2003: 3.7 pence). Earnings per share has been calculated by dividing net profit attributable to ordinary shareholders (profit for the year) by the weighted average number of shares that would have been in issue if the Enlarged Group had been a legally defined Group at 31 December and had applied the merger method. In the Board's view, such calculation is consistent with IAS/IFRS and provides a suitable basis for comparisons going forward.

CASH FLOW

Net cash flow from operating activities was £0.9 million and the Group was cash positive at £0.3 million as of 31 December 2004. The Group's total debt amounted to £2.2 million, with an equity base of £5.0 million.

CAPITAL EXPENDITURE

During the period under review the Group purchased property, plant and equipment with a value of nearly £1.6 million. This expenditure mostly related to the construction of the new processed cheese production facility, acquisition of melting and packaging equipment and the upgrade of the production and distribution facilities.

DIVIDENDS

The Directors are committed to a progressive and balanced dividend policy that aims to reward shareholders adequately whilst at the same time maintaining the necessary cash position to support the Group's continuing growth. In order to support the cash requirements of the Group, the Directors recommend that no dividend be paid for the year 2004. No dividends have been paid out during the year under review.

INTERNATIONAL ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IAS/IFRS)

The Group's financial statements for the last four financial years, 2004 inclusive, have been prepared in accordance with IAS/IFRS.

Dr Dmitry Dragun
Chief Financial Officer
3 June 2005

BOARD OF DIRECTORS AND CORPORATE ADVISERS

From left to right:
Dr Dmitry Dragun, Iryna Yevets, Alexander Slipchuk, Sergey Evlanchik, Dr Jack Rowell OBE, David Lattimore and Paul Williams

Dr Jack Rowell OBE
Non-executive Chairman

Dr Jack Rowell OBE has served as a Board member since November 2004. Dr Rowell has acted as Chairman of a number of companies in the public and private sectors and was previously a Director on the Board of Dalgety plc with responsibility for the Consumer Foods Division. Prior to this Dr Rowell was CEO of Golden Wonder, part of the Dalgety Group, and finance director and then CEO of Lucas, (also part of the Dalgety Group). In parallel to his business career he has long been involved with rugby, being England coach between 1994 and 1998.

Sergey Evlanchik
Chief Executive Officer

Sergey Evlanchik is a founder of Ukrproduct Group. He studied at Vladivostok State University of Economics & Service in the Russian Federation and Oxford University in the UK, where he received his MBA degree. Together with Alexander Slipchuk, he established the equity trading company, Alfa-Broker in 1994. After the recess of the Russian and Ukrainian equity markets in 1998, Sergey re-focused his activities on business development in the industrial sector of Ukraine, the dairy business in particular, joining the management boards of the companies that later formed Ukrproduct Group.

Iryna Yevets
Chief Operating Officer

Iryna Yevets is responsible for the Group's overall performance and operational strategy in Ukraine. Iryna is a qualified accountant who started her own company, Audit Legal Services in Ukraine in 1994. In 2001 she took up a position as chief accountant at Latoritsa, a leading integrated food company based in Western Ukraine. She then joined Ukrproduct Group in 2002 as Finance Director, becoming President of the Ukrainian operating company in 2003 and Chief Operating Officer of the Group in 2004. Iryna holds Honours in Economics & Engineering from Lviv Engineering University.

Dr Dmitry Dragun
Finance Director

Dr Dmitry Dragun is Finance Director of the Group. Dmitry worked at National (Central) Bank of Belarus in a variety of senior executive positions before going to Oxford to study for an MBA in 1997. Post-MBA, Dmitry has remained in the UK as the senior research associate in finance at Templeton College, Oxford University's designated centre of business studies and executive development. Dmitry joined Ukrproduct Group in 2003 as its financial and investment adviser, and was appointed Finance Director of the Group in 2004. Dmitry holds the Chartered Financial Analyst (CFA®) certification.

Alexander Slipchuk
Executive Director

Alexander Slipchuk studied at Far-Eastern High Engineering Marine School in Russia and graduated as a maritime navigator in 1989. Together with Sergey Evlanchik, Alexander established the securities house Alfa-Broker in 1994, developed the equity trading business in the far east of the Russian Federation, and acquired initial stakes in the companies that later became part of Ukrproduct Group. Alexander joined Ukrproduct in 1998, taking an executive, hands-on operating position at the Molochnik and the Starakonstantinovskiy dairy plants, the Group's main operating assets. He serves as the Group's Executive Director responsible for strategic oversight of the Group's operations in Ukraine.

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Paul Williams
Non-executive Director
Educated at Shrewsbury School, Paul Williams read modern languages and economics at Clare College, Cambridge. He trained with his family firm before joining Arthur Young McLelland Moores, subsequently becoming joint founder partner of his own accountancy practice, Pennington Williams, which he ran for over 22 years. Until December 2004 he was finance director and company secretary of Maelor plc, a North Wales based pharmaceutical company. Paul is a member of the London Stock Exchange's AIM Advisory Group and the North West Regional Advisory Group, and has been a regular speaker on behalf of AIM at many UK and international seminars.

David Lattimore
Non-executive Director
David Lattimore is a Chartered Director with over thirty years' experience in the UK dairy industry primarily with Unigate plc and Dairy Crest plc. He is currently a director of Forgefirst Ltd, a management services company with clients ranging from government bodies to farmers' organisations and public limited companies.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Ukrproduct Group Ltd for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The main activity of the Company (Ukrproduct Group Ltd) is that of a holding company. The main activities of Ukrproduct Group are the production and distribution of branded dairy foods in Ukraine and the export of skimmed milk powder. The Group is one of the largest branded food producers in Ukraine with its own nationwide distribution network. More detailed commentary on the Group's activities during the year, its financial performance and future plans and prospects are outlined in the Chairman's and Chief Executive's Statements and in the Financial Review.

DIRECTORS

The names and brief biographical details of the current Directors are provided on pages 6 and 7. Details of the Directors' remuneration are set out in the Remuneration Committee Report.

EMPLOYEES

The Group is committed to ensuring provision of equal opportunities for all employees, which is reflected by its selection, recruitment and training policies. The Group considers its employees to be one of its most valuable assets and rewards high performance through competitive remuneration and incentive schemes. The Directors also consider it a priority to give employees the opportunity to communicate their ideas and opinions to all levels of management, both directly and through various surveys.

SUBSTANTIAL SHAREHOLDINGS

As at 15 April 2005, the Company has been notified of the following substantial interests in its issued ordinary share capital (the ten largest shareholders are reported):

Shareholder	Number of ordinary shares	Holding %
Crensel Finance Limited	15,000,000	36.4
Densim Group Management SA	15,000,000	36.4
Fidelity European Smaller Companies Fund	3,300,000	8.0
East Capital Osteuropafond	900,000	2.2
Moore Global Fixed Income Fund	837,000	2.0
Lehman Brothers International (Europe)	800,000	1.9
Chase Nominees	727,500	1.8
East Capital Rysslandsfond	600,000	1.5
Goldman Sachs Securities	500,000	1.2
Moore Macro Fund LP Main Equities	418,000	1.0

PAYMENT POLICY

The Group has a general set of guidelines for paying its suppliers based on specific criteria. However, it is normal practice to agree payment terms with a specific supplier when entering into a purchase contract. The Group seeks to abide by the payment terms agreed whenever it is satisfied that the goods or services have been provided in accordance with the agreed terms and conditions.

AUDITORS

For the financial year under review, BDO Stoy Hayward and IGK Ukraine served as auditors to the Group.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors of Ukrproduct Group Ltd have accepted responsibility to prepare the combined financial information for the year ended 31 December 2004 on the basis set out in note 2 to the combined financial information. In preparing this combined financial information, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed; and
- prepared the combined financial information on the going concern basis as they believe that the Group will continue in business.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the entity and to prevent and detect fraud and other irregularities.

Approved by and signed by order of the Board

Authorised Signatory

Bedell Cristin Secretaries Limited
Secretary

3 June 2005

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Group's Board has considered the guidance published by the Institute of Chartered Accountants in England and Wales concerning the internal control requirements of the Combined Code of Corporate Governance and has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

In general terms, the Group's corporate governance principles aim to secure adherence to prudent business practice, to prevent the executive excesses harmful to enterprise and to align the managers' interests with those of shareholders. Driving shareholder value is key and an underlying motive of corporate governance. The Group is well aware of the heightened requirements for corporate transparency and the shareholder responsibility advocated by the international business community and regulatory bodies in the UK, Ukraine, Jersey and internationally. Consequently, the Group has evolved its composition along the lines of clearer responsibility for Directors and a more transparent holding structure for shareholders. As the Group grows, these policies and procedures will be developed to reflect the requirements of the Combined Code appropriate to a company of the Group's size.

THE BOARD

The Group Board consists of three Non-executive and four Executive Directors. The biographical details of the Directors are shown on pages 6 and 7. The roles of the Chairman of the Board and the Chief Executive of the Group are held separately with a clear division of responsibility between them. The Chairman of the Board is an Independent Non-executive Director. All Non-executive Directors are considered to be independent, under generally available guidelines, and together bring a wide range of skills and international experience to bear on issues under consideration.

Within the scope of the corporate governance procedures, the Group Board meets regularly to consider the financial results, budgets, and major items of capital expenditure of all companies of the Group. This body is also responsible for formulating, reviewing and approving the Group's strategy and the phases of its development.

The meetings of the Board of Directors take place in Ukraine or Jersey, or any other suitable jurisdiction as decided upon from time to time by the Board. Teleconference discussions are also a possibility, when Directors are present in either (or both) Jersey or Ukraine.

The Board has established two committees: Audit and Remuneration.

AUDIT COMMITTEE

Chairman, Paul Williams

The Audit Committee consists of three Non-executive Directors. All members of the Audit Committee have relevant financial experience and some are qualified chartered accountants. This Committee, inter alia, is responsible for reviewing the annual and interim financial statements, in addition to the systems of internal control and risk management, and also for ensuring the integrity of the financial information reported to shareholders. The Audit Committee is scheduled to meet at least three times per annum.

REMUNERATION COMMITTEE

Chairman, David Lattimore

The Remuneration Committee comprises three Non-executive Directors. This Committee is scheduled to meet at least twice per annum to advise the Board on the Group's remuneration strategy and to determine the terms of employment and total remuneration of the Executive Directors and senior employees, including the granting of share options. Among others, the objective of this Committee is to attract, retain and motivate Executives capable of delivering the Group's objectives. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

INVESTOR RELATIONS

The Group meets and encourages communication with its institutional and private shareholders, fund managers, financial analysts and brokers.
In communicating to the above-mentioned parties the Group uses various means such as the annual report, interim statements, annual general meetings and the Company website (www.ukrproduct.com) as necessary.

The Group recognises that the increased transparency is an integral part of being a listed company. As such it has set up procedures to ensure that it discloses price sensitive information to the market in a timely fashion, regularly consults with its nominated adviser and ensures timely publication of its interim and annual financial statements within the deadlines imposed by the AIM Rules and the corresponding requirements of the jurisdictions in which the Group is present or operates.

FINANCIAL PROCEDURES AND INTERNAL CONTROL

The Group adheres to comprehensive and strictly regulated budgeting and reporting procedures that are aimed at more efficient internal control and risk management. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, however, it is recognised that any control system can only provide reasonable and not absolute assurance against material misstatement or loss.

The main constituents of the internal control system are:

- documented policies, procedures and authorisation levels;
- clearly defined lines of responsibility in the organisational structure of the Group;
- a management structure which facilitates ease of communication both vertically and horizontally;
- annual budgeting and monthly reporting procedures.

The annual budgets are updated each month once actual figures become available. Due to the dynamic development of the macroeconomic environment of the country the Group operates in, variances in actual figures for sales, prices and other underlying assumptions from those forecast may occur. Hence, the budget is flexed to better reflect the future of the Group. Such variances by each company within the Group are discovered and recommendations for further actions are formulated.

The internal control system is further enforced by the Group's internal audit department. The main objectives of the internal audit function are to ensure the safety of the Company's assets and the reliability of accounting records. The internal audit department is responsible for auditing the financial statements and accounting procedures of the companies within the Group, as well as for disclosing and reducing various types of risks related to Group operations. Each company within the Group has a designated auditor, who systematically performs the audits.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Group is committed to the principles of corporate social responsibility ("CSR") and believes that these are in the long-term interests of its shareholders. Accordingly, the Board is committed to developing and implementing CSR policies which are aimed at:

- promoting equality and fairness among employees, partners and suppliers;
- ensuring safe and healthy working conditions;
- maintaining corporate reputation and dedication to business ethics;
- supporting the communities in which the Group operates; and
- establishing long-term and healthy relationships with the Group's partners, customers and other affiliated parties.

The main elements of the Group's approach towards fulfiling the objectives outlined above comprise the following:

EMPLOYEES

The Group is committed to ensuring equal opportunities to all its employees, both current and prospective. Each employee's efforts are highly valued and the Board believes that a diverse mix of the workforce facilitates innovation, efficiency and teamwork. As a matter of corporate policy, regular training and development workshops are conducted for the staff. These are aimed at all employee groups, including management, technical as well as production personnel. The training programmes encourage the staff to move up the career ladder and are central to the Group's continuing growth and success.

HEALTH AND SAFETY

Management at business units within the Group are responsible for developing and maintaining the underlying practices that provide for a healthy and safe working environment. Special attention is given to the production facilities, where the equipment, lighting, air conditioning, work space and other constituents undergo constant review and optimisation. Regular monitoring is carried out to ensure that required standards are met and that employees use the provided communication channels to further develop their surrounding working conditions.

CUSTOMERS

Customer satisfaction is at the core of the Group's business model. Accordingly, the Board is keen to continue supplying the customers with high quality, affordable products as required by the current market demand. The Group's segmentation practices are aimed at segregating various customer groups in order to meet their needs with maximum efficiency. In addition, regular marketing surveys are conducted to ensure consistent maximum value is offered to the customers.

ENVIRONMENT AND COMMUNITY

Even though the dairy-based food manufacturing industry generally has a low environmental impact, the Group recognises the importance of good environmental practices and seeks to minimise a negative impact that its operations or products may have on the surrounding areas. The Group complies with the environmental laws and regulations in Ukraine and strives to promote the effective resource management, energy conservation and waste efficiency.

The Group is also anxious to develop and maintain partnership relationships with the communities it operates in, by means of supporting local initiatives and charitable events. The Group participates in such initiatives by contributing cash donations and gifts, as well as employee time, by encouraging staff to participate as volunteers.

REMUNERATION COMMITTEE REPORT

This report is prepared by the Remuneration Committee of the Board and sets out the Company's policy on the remuneration of the Directors, with a description of service agreements and remuneration packages for each Director.

THE REMUNERATION COMMITTEE (THE "COMMITTEE")

The Committee comprises three Non-executive Directors and is chaired by David Lattimore. This Committee is scheduled to meet at least twice per annum. The objective of the Committee is to advise the Board on the Group's overall remuneration policy and to determine the terms of employment and total remuneration of the Executive Directors and certain senior employees, including the granting of share options. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

REMUNERATION POLICY

The Company's remuneration policy is to provide remuneration packages which:

- are designed to attract, motivate and retain high calibre Executives;
- are competitive and in line with comparable businesses;
- are based on practices exercised in countries where the Group operates;
- intend to align the interests of the Executives with those of the shareholders, by means of providing fixed and performance related remuneration; and
- set challenging performance targets and motivate Executives to achieve those targets both in the short and long-term.

BASE SALARY

The Committee reviews base salaries of the Executive Directors each year taking into account job responsibilities, competitive market rates and the performance of the Executive concerned. Consideration is also given to the cost of living and the Director's experience. While determining the base salaries, the Committee also considers general aspects of the employment terms and conditions of employees elsewhere in the Group.

INCENTIVE BONUS PLANS AND EQUITY ARRANGEMENTS

Taking into account that the Remuneration Committee was formed late in the year under review, no bonus plans have been set during this period. The Committee plans to consider developing long-term equity incentive arrangements to make the overall Executive Remuneration structure more performance-related, more competitive and aligned with shareholders' interests.

SERVICE CONTRACTS

All Executive Directors were appointed on 1 November 2004. These appointments are valid for an indefinite period and may be terminated with three months notice given by either party at any time starting from 11 August 2005. The Company's provision for compensation for loss of office is to provide compensation which reflects the Company's contractual obligations.

NON-EXECUTIVE DIRECTORS

All Non-executive Directors were appointed on 1 November 2004. These appointments are valid for an indefinite period and may be terminated with three months notice given by either party at any time starting from 11 August 2005. The decision to re-appoint, as well as the determination of the fees of the Non-executive Directors, rests with the Board. The Non-executive Directors may accept appointments with other companies, although any such appointment is subject to the Board's approval and terms and conditions of Service Agreements.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are outlined below:

	Annual salary/fee £	Salary/fees 2004 £	Benefits in kind 2004 £	**Total salary and benefits in kind 2004 £**
Executive				
Sergey Evlanchik	50,000	8,333	—	**8,333**
Alexander Slipchuk	45,000	7,500	—	**7,500**
Iryna Yevets	40,000	6,667	—	**6,667**
Dr Dmitry Dragun	35,000	5,833	—	**5,833**
Non-executive				
Dr Jack Rowell	30,000	5,000	—	**5,000**
Paul Williams	25,000	4,167	249	**4,416**
David Lattimore	25,000	4,167	249	**4,416**

INDEPENDENT AUDITORS' REPORT

To the members of Ukrproduct Group Ltd

We have audited the accompanying combined special purpose financial information, which has been prepared for the reasons and on the basis set out in note 2. The combined special purpose financial information ("combined financial information" hereafter) on pages 14 to 34 has been prepared by combining, on the basis more fully explained in note 2, the accounts of the companies under common control (hereafter collectively referred to as the "Enlarged Group"), which were the subject of an acquisition on 11 February 2005 following the Company's listing on the Alternative Investment Market of the London Stock Exchange. As explained in note 2 of the combined financial information, these are not the statutory accounts of the Enlarged Group and have been prepared solely for the purpose of presenting the combined financial information relating to the Enlarged Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 8, the Directors of the Company have accepted responsibility for the preparation of this combined financial information in accordance with the basis of preparation set out in note 2 of the combined financial information. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board, by our profession's ethical guidance and by the terms of our engagement letter dated 30 March 2005.

Under the terms of our engagement we are required to report to you our opinion as to whether the combined financial information has been properly prepared in accordance with the basis of preparation set out in note 2 of the combined financial information. We will also report to you, if in our opinion, we have not received all the information and explanations we require for our audit.

Our report has been prepared solely in connection with the combination of the new Enlarged Group. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used and relied on by any party other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report and chooses to rely on our report (or any part of it) will do so at their own risk. To the fullest extent permitted by law, BDO Stoy Hayward LLP will accept no responsibility or liability in respect of our report to any other person or organisation.

BASIS OF AUDIT OPINION

We conducted our audit having regard to Auditing Standards issued by the UK Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the combined financial information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the combined financial information, and whether the accounting policies are appropriate to the Enlarged Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all of the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the combined financial information are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we have also evaluated the overall adequacy of the presentation of the information in the combined financial information.

OPINION

In our opinion, the combined financial information for the year ended 31 December 2004 have been properly prepared in accordance with the basis of preparation set out in note 2.

BDO Stoy Hayward LLP
Chartered Accountants
London

3 June 2005

STATEMENT OF INCOME

	Notes	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Revenues	4	17,597	**27,115**
Costs of sales		(15,222)	**(22,698)**
Gross profit		2,375	**4,417**
Other operating income		—	**63**
General and administrative expenses		(690)	**(1,045)**
Selling and distribution expenses		(399)	**(1,070)**
Other expenses		(180)	**(296)**
Income from waiver of debt	25	250	**—**
Profit before interest and taxation	5	1,356	**2,069**
Finance costs – interest payable and similar charges		(94)	**(312)**
Profit before taxation		1,262	**1,757**
Income tax expense	8	(146)	**(301)**
Profit after taxation		1,116	**1,456**
Attributable to:			
Owners		1,111	**1,436**
Minority interest		5	**20**
		1,116	**1,456**
Basic earnings per share (pence)	8	3.7	**4.8**
Diluted earnings per share (pence)	8	3.7	**4.8**

The notes on pages 18 to 34 form part of this combined financial information.

BALANCE SHEET

	Notes	As at 31 December 2003 £ 000	**As at 31 December 2004 £ 000**
Non-current assets			
Property, plant and equipment	9	1,017	**5,023**
Intangible assets	10	—	**3**
Investments	11	89	**83**
Deferred tax	7	—	**36**
Total non-current assets		1,106	**5,145**
Current assets			
Inventories	13	1,607	**2,328**
Loans issued	14	15	**212**
Receivables and prepayments	15	2,143	**2,029**
Cash and cash at bank	12	132	**300**
Total current assets		3,897	**4,869**
Current liabilities			
Bank loans and overdrafts	16	(1,008)	**(1,077)**
Trade and other payables	17	(1,938)	**(1,671)**
Promissory notes	18	(3)	**—**
Current income tax liabilities		(119)	**(253)**
		(3,068)	**(3,001)**
Net current assets		829	**1,868**
Total assets less current liabilities		1,935	**7,013**
Non-current liabilities			
Long-term loans	19	—	**(221)**
Bonds	19	(302)	**(933)**
Promissory note	18	(22)	**(5)**
Deferred income tax liabilities	7	—	**(703)**
Net assets		1,611	**5,151**
Capital and reserves attributable to equity holders			
Invested capital	20	3,000	**3,000**
Merger reserve	22	(1,866)	**(1,866)**
Revaluation reserve	9	—	**2,020**
Retained earnings		409	**1,865**
		1,543	**5,019**
Minority interest	22	68	**132**
Total shareholders' equity		1,611	**5,151**

The notes on pages 18 to 34 form part of this combined financial information.

CASH FLOW STATEMENT

		Notes	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Cash flow from operating activities				
Net profit before taxation			1,262	**1,757**
Adjustments for:				
Depreciation			62	**520**
Interest expense			94	**305**
Income from waiver of debt			(250)	**—**
			1,168	**2,582**
Increase in inventories			(1,039)	**(872)**
(Increase)/decrease in trade and other receivables			(1,070)	**(71)**
(Increase)/decrease in trade and other payables			839	**(349)**
Cash (used by)/generated from operations			(102)	**1,290**
Interest paid			(94)	**(305)**
Income tax paid/(refunded)			(32)	**(66)**
Net cash (used in)/generated by operating activities			(228)	**919**
Cash flows from investing activities				
Purchase of property, plant and equipment			(733)	**(1,566)**
Purchase of investments			—	**1**
Proceeds from sale of property, plant and equipment			31	**3**
Proceeds from sale of investment			—	**(7)**
Loans (advanced)/repaid			104	**(207)**
Net cash used in investing activities			(598)	**(1,776)**
Cash flows from financing activities				
Net proceeds from long-term borrowing		23	—	**232**
Proceeds from issue of bonds		23	303	**680**
Proceeds from issue of shares/additional capital			1,075	**—**
Distribution of profit		(914)	**—**	
Net proceeds from issue of promissory notes	23	(70)	**(20)**	
Net proceeds from short-term borrowing		23	602	**147**
Net cash generated by/(used in) financing activities			996	**1,039**
Effect of exchange rate changes and restatements on cash and cash equivalents			(86)	**(14)**
Net increase/(decrease) in cash and cash equivalents			84	**168**
Cash and cash equivalents at the beginning of the year			48	**132**
Cash and cash equivalents at the end of the period		12	132	**300**

The notes on pages 18 to 34 form part of this combined financial information.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £ 000	Merger reserve £ 000	Revaluation reserve £ 000	Retained earnings £ 000	Shareholders' equity £ 000	Minority interest £ 000	Total equity £ 000
Balance at 1 January 2003	309	—	—	256	565	118	683
Issue of shares	845	—	—	—	845	—	845
Purchase of treasury shares	(20)	—	—	—	(20)	—	(20)
Net profit for the year	—	—	—	1,111	1,111	5	1,116
Reduction in minority interest on issue of new shares	—	—	—	42	42	(42)	—
Issue of share capital in the Company (note 20)	3,000	(3,000)	—	—	—	—	—
Elimination of share capital in subsidiaries	(1,134)	1,134	—	—	—	—	—
Distribution of profit	—	—	—	(913)	(913)	—	(913)
Exchange differences on translation to the presentation currency (note 3c)	—	—	—	(87)	(87)	(13)	(100)
Balance at 1 January 2004	3,000	(1,866)	—	409	1,543	68	1,611
Gain on revaluation of fixed assets	—	—	3,073	—	3,073	75	3,148
Deferred income tax on gain on revaluation	—	—	(674)	—	(674)	(17)	(690)
Issue of shares	15	—	—	—	15	—	15
Issued on acquisition of Operating Group	15,273	—	—	—	15,273	—	15,273
Merger reserve arising on an acquisition of Operating Group	—	(15,288)	—	—	(15,288)	—	(15,288)
Net profit for the period	—	—	—	1,436	1,436	20	1,456
Depreciation on revaluation of fixed assets	—	—	(154)	158	4	(4)	—
Elimination of shares issued and merger reserve on acquisition of Operating Group	(15,288)	15,288	—	—	—	—	—
Exchange differences on translation to the presentation currency (note 3c)	—	—	(225)	(138)	(363)	(11)	(374)
Balance at 31 December 2004	**3,000**	**(1,866)**	**2,020**	**1,865**	**5,019**	**132**	**5,151**

The notes on pages 18 to 34 form part of this combined financial information.

NOTES TO THE FINANCIAL STATEMENTS

1. GROUP AND PRINCIPAL ACTIVITIES

For the purposes of this financial information the terms "Operating Group" and "Enlarged Group" have been taken to indicate the companies listed in note 2(b). All of these companies have effectively operated as a group under common management and control for a number of years although they did not comprise a statutory group as they had not been linked by a common parent. Following the establishment of a new holding company Ukrproduct Group Ltd (the "Company") on 18 May 2004, the companies comprising the Operating Group were brought together on 11 February 2005 following the Company's listing on the Alternative Investment Market of the London Stock Exchange to create a formal group under the ultimate control of this new holding company.

The Enlarged Group's main activity is to produce and supply dairy products (butter and cheese) to wholesale and retail outlets in Ukraine. It also produces and exports skimmed milk powder to the markets of Denmark, Russia, Bulgaria, Holland and other countries. The Group is not involved in the retailing of its products.

The Operating Group's production facilities and management are based in Ukraine. The head office is located in Kyiv. The Enlarged Group has its own distribution network in Ukraine. The average number of employees of the Enlarged Group during the year ended 31 December 2004 was 1,194 people (2003: 783 people).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the combined financial information are set out below:

a) Basis of preparation

This financial information is based on the audited non statutory special purpose combined financial information of the Enlarged Group which has been prepared by combining the historical financial information for each of the companies that comprise the Enlarged Group from the accounting records of those companies. The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board.

The majority of companies making up the Enlarged Group maintain their accounting records in accordance with the Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as we consider necessary in order to comply with IFRS. Accounting records of the Enlarged Group are maintained in Ukrainian Hryvnas ("UAH" or "Hryvna" hence), the national currency of Ukraine. The Hryvna has also been adopted as the measurement currency for the purpose of the special purpose combined financial information (see note 2(c)).

The financial information has been translated into British Pounds Sterling at the rates given in note 2(p).

The combined financial information has been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment at fair value in the year ended 31 December 2004.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Enlarged Group's accounting policies.

Early adoption of standards

In 2003, the Enlarged Group adopted early the IFRS below, which are relevant to its operations. The financial information has been amended as required, in accordance with the relevant requirements.

IAS	1	(revised 2003)	Presentation of Financial Statements
IAS	2	(revised 2003)	Inventories
IAS	8	(revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS	10	(revised 2003)	Events after the Balance Sheet Date
IAS	16	(revised 2003)	Property, Plant and Equipment
IAS	17	(revised 2003)	Leases
IAS	21	(revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS	24	(revised 2003)	Related Party Disclosures
IAS	27	(revised 2003)	Consolidated and Separate Financial Statements
IAS	28	(revised 2003)	Investments in Associates
IAS	32	(revised 2003)	Financial Instruments: Disclosure and Presentation
IAS	33	(revised 2003)	Earnings per Share
IAS	39	(revised 2004)	Financial Instruments: Recognition and Measurement
IFRS	3	(issued 2004)	Business Combinations
IAS	36	(revised 2004)	Impairment of Assets
IAS	38	(revised 2004)	Intangible Assets

2. SIGNIFICANT ACCOUNTING POLICIES continued

a) Basis of preparation continued

Early adoption of standards continued

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 32 and 33 (all revised 2003) did not result in substantial changes to the Enlarged Group's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures;
- IAS 2, 8, 10, 16, 17, 27, 28, 32 and 33 had no material effect on the Enlarged Group's policies;
- IAS 21 (revised 2003) had no material effect on the Enlarged Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The majority of the Enlarged Group entities have the same functional currency as their measurement currency; and
- IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

The early adoption of IAS 39 (revised 2004) has resulted in a change to the accounting policy relating to the classification of financial assets at fair value through profit or loss. The Enlarged Group has applied the exemptions afforded by IFRS 1 from the requirement to re-state comparative information for 2001 and 2002 for IAS 39 and IAS 32, and has applied previously applicable generally accepted accounting principles to those years.

The early adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. However, there has been no goodwill arising as subsidiaries accounted for as acquisitions were so acquired on incorporation.

In accordance with the provisions of IFRS 3:

- the Enlarged Group ceased amortisation of goodwill from 1 January 2003; and
- from the year ended 31 December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The Enlarged Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustments resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Enlarged Group require retrospective application other than:

- IAS 16 – the exchange of property, plant and equipment is accounted at fair value prospectively;
- IAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- IFRS 3 – prospectively after 31 March 2004;
- IAS 39 requires simultaneous adoption with IAS 32; and
- IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

b) Principles of combination and consolidation

The combined financial information includes the results of the companies set out in the table on page 20. As described in note 1 the Enlarged Group is comprised of a number of companies under common management and ultimate ownership but was not linked by a formal ownership structure or a single common parent until 11 February 2005. The Operating Group, which sits within the Enlarged Group, was not linked by a formal ownership structure or a single common parent until 18 May 2004. The special purpose combined financial information has been prepared in order to present the combined results and balances that would have been shown had the Enlarged Group been under the control of a single common parent.

Where Group companies are formally owned by another Group company, they have been consolidated to the highest possible level using the acquisition method, in which share capital of the entity is eliminated against the investment recorded in the parent. As such, the Enlarged Group companies have been treated as if they had been owned from the date of their formation and consideration issued for the investment equalled share capital, goodwill does not arise on acquisition other than incidentally.

The combination of companies under common ownership but not linked by a formal ownership structure has been based on the pooling of interests ("merger method"). In applying this method, financial statement items for each Group company are combined as if they had been combined from the earliest period, the result being a combination of all Group companies' assets, liabilities and reserves. All intra-Enlarged Group transactions and balances are eliminated on combination. Business combinations of entities under common control are outside the scope of IFRS 3 and so the early adoption of that standard does not affect this treatment.

Following the formal acquisition of the Enlarged Group companies in May 2004, a combined balance sheet has been prepared as at 31 December 2004. The business combination comprising a number of businesses under common control is outside the scope of IFRS 3 and the balance sheet has been prepared using the pooling of interests method.

2. SIGNIFICANT ACCOUNTING POLICIES continued

b) Principles of combination and consolidation continued

The results and balances of the following organisations have been combined:

	Country of incorporation	Deemed Group holding	Method of combination 2004	Method of combination 2003
Operating Group				
Molochnik OJSC	Ukraine	95.2%	Acquisition method	Merger method
Ukrprodexpo SC	Ukraine	100%	Acquisition method	Merger method
Starokonstantinovskiy Molochniy Zavod SC	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy LLC	Ukraine	100%	Acquisition method	Merger method
Togoviy Dim Maslayana SC*	Ukraine	100%	Acquisition method	Acquisition method
Togoviy Dim Milko SC*	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy Dnipro SC*	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy Lviv SC*	Ukraine	100%	Acquisition method	Acquisition method
Starkon-Moloko LLC	Ukraine	100%	Acquisition method	Merger method
Dairy Trading Corporation	USA	100%	Merger method	Merger method
Alfa-Broker Ltd	UK	100%	Merger method	Merger method
Intermilk SC	Ukraine	100%	Acquisition method	Merger method
Ukrevroprodukt SC*	Ukraine	100%	Acquisition method	Merger method
Agrospetsresursy Zhytomyr SC*	Ukraine	100%	Acquisition method	n/a
Ukrproduct-Kharkov SC*	Ukraine	100%	Acquisition method	n/a
Nash Molochnik Private Enterprise SC*	Ukraine	100%	Acquisition method	n/a
Ukrproduct-Logistics Private Enterprise	Ukraine	100%	Acquisition method	n/a
Ukrproduct CJSC	Ukraine	100%	Merger method	n/a
Enlarged Group				
All entities within the Operating Group above plus:				
LinkStar Limited	Cyprus	100%	Acquisition method	n/a
Dairy Trading Corporation	BVI	100%	Merger method	Merger method
Ukrproduct Group plc	UK	100%	Acquisition method	n/a

* Subsidiaries of Agrospetsresursy LLC, the Operating Group's specialised distribution companies.

Intermilk SC, Alfa-Broker Ltd and Dairy Trading Corporation (USA) are in the process of solvent liquidation.

Between 30 June 2004 and 11 February 2005 Alfa-Broker Ltd transferred its principal business and assets to LinkStar Limited, a company registered in Cyprus. Subsequently, Alfa-Broker Ltd is not to be included as part of the Group going forward. It has therefore been necessary to include the results of Alfa-broker Limited in the combined financial information in order to provide the combined results for the full period under review. LinkStar Limited was acquired by the Company on 11 February 2005 following the Company's listing on the Alternative Investment Market of the London Stock Exchange.

c) Translation from measurement to presentation currency and adoption of SIC 30

Management has considered what would be the most appropriate measurement and presentation currencies for this financial information. As a result of this review management has concluded that:

(i) Hryvna is the currency of the primary economic environment in which the Enlarged Group operates. Consequently, Hryvna is the most appropriate measurement currency for the Group; and

(ii) the Enlarged Group should use British Pounds Sterling as the presentation currency for its IFRS financial statements.

Thus management has decided to use the following basis for the translation of Hryvna figures to British Pounds for presentation purposes:

(i) for current year figures all assets and liabilities are translated at the closing rate existing at the balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the balance sheet date;

(ii) for comparative figures all assets and liabilities are translated at the closing rate existing at the relevant balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the previous balance sheet date; and

(iii) all exchange differences resulting from the application of the translation methods described above are recognised directly in equity.

Actual exchange rates applied in the translation are detailed in note 2(p) on page 22.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Property, plant and equipment

Figures calculated using the Ukrainian statutory accounting rules, have been adopted as deemed depreciated historical cost for property, plant and equipment as at 1 January 2004. Subsequent additions have been recorded at cost.

With effect from 1 January 2004, the Enlarged Group adopted the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets. This change of accounting policy was made on the grounds that management believe that this policy provides more reliable and relevant financial information because it better reflects the value in use of such assets to the Enlarged Group. In accordance with the provisions of that standard, the revaluation model has not been applied retrospectively.

All classes of assets as at 1 January 2004 were revalued as at that date by an independent valuer BGS Asset on a depreciated replacement cost basis. Management believes that the carrying value of all additions since 1 January 2004 is not materially different to fair value.

Depreciation is applied to all items of property, plant and equipment with the exception of land. Depreciation is calculated on the reducing balance method using the following annual rates:

Buildings	5%
Plant and machinery	15%
Equipment and motor vehicles	25%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit.

(f) Assets under construction

Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the Enlarged Group's directly attributable costs. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to the relevant fixed asset category and subsequently subjected to the applicable depreciation rates from the time the asset is completed and ready for use.

(g) Intangible assets – computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specialised software. These costs are amortised over their estimated useful lives (three years).

(h) Investments

The Enlarged Group has investments in the equity of Ukrainian companies including investments representing more than 50% of the share capital of the investee company. Other than as referred to under (b) on page 20, where such companies are not expected to become subsidiaries of the proposed holding company, they have been excluded from the combination and are treated as investments.

Investments are carried at cost, which management believe is not significantly different from fair value.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

(j) Trade receivables

Trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Enlarged Group will not be able to collect all amounts due according to the original terms of receivables.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(l) Provisions

Provisions for environment restoration, restructuring costs and legal claims are recognised when: the Enlarged Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amounts have been reliably estimated. Restructuring provisions are not recognised for the future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(m) Revenue recognition

Revenue recognition for the fair value for the sale of goods and services, net of value added tax, rebates and discounts and after eliminated intra-group sales with the Enlarged Group, is as follows:

(i) **Sales of goods – own production.** Sales of goods are recognised when an Enlarged Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) **Sales of goods – third parties.** Sales of goods are recognised when an Enlarged Group entity has delivered products to the customer, the customer has accepted the products, and collectability of the related receivables is reasonably assured.

(iii) **Sales of services.** Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) **Interest income.** Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Enlarged Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest-rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash collected or on a cost-recovery basis as conditions warrant.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight line basis over the period of the lease.

(o) Income taxes

Taxation has been provided for in the financial information in accordance with relevant legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

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

(p) Foreign currency translation

Transactions denominated in currencies other than Hryvna (“foreign currencies”) are recorded in Hryvna at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Hryvna at the official exchange rate at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses.

Income and expense figures have been converted to British Pounds for presentation purposes at an average rate of £1 = UAH 9.74 for the year ended 31 December 2004 and £1 = UAH 8.76 for the year ended 31 December 2003. Assets, liabilities and equity items have been converted to pounds for presentation purposes at a closing rate of £1 = UAH 10.18 for the year ended 31 December 2004 and £1 = UAH 9.47 for the year ended 31 December 2003. Exchange differences resulting from conversion to presentational currency are included in retained earnings.

(q) Pension costs

The Enlarged Group contributed to the Ukrainian state pension scheme, social insurance and employment funds in respect of its employees. The Enlarged Group’s pension scheme contributions are expensed as incurred. The contributions are included in staff costs. The Enlarged Group has no other liabilities in respect of pensions or employee retirement benefits.

(r) Financial instruments

The carrying amounts of the Enlarged Group’s financial assets and liabilities (comprising investments, bank and cash balances, trade and other debtors, trade and other creditors and short and long-term borrowings) approximate to their fair values at the date of the transaction. Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value.

(s) Borrowing costs

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

(t) Reclassification of 2003 comparative information

An amount of £1,866,000 has been reclassified between share capital and merger reserve in the comparative figures. This ensures that the basis of preparation is consistent with the 2004 combined financial information, with Ukrproduct Group Ltd being the holding company of the Enlarged Group as opposed to the summation of the share capital of the Group’s subsidiaries which was originally reported upon. The net assets and shareholders’ funds of the Enlarged Group are not affected by this reclassification.

3. FINANCIAL RISK FACTORS

The Enlarged Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Enlarged Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Enlarged Group's financial performance.

Risk management is carried out by the Enlarged Group Treasurer under policies approved by the Board of Directors. The Enlarged Group Treasurer identifies and evaluates financial risks in close co-operation with the Enlarged Group's operating units. The management Board provides broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

Foreign exchange risk

Although the Enlarged Group is an international operator, management believes that the foreign exchange risk is minimal at present and is likely to remain so in the future. The Enlarged Group's international operations consist primarily of the export of skimmed milk powder to the various markets around the world. The primary currency for export sales is the US Dollar. As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was US$1 = UAH 5.31. As at 31 December 2003 the principal rate of exchange used for translating foreign currency balances was US$1 = UAH 5.48.

The Enlarged Group's established corporate policy towards hedging the potential foreign exchange risk is to require customers to pay for the export shipments of the skimmed milk powder in full and in advance (from one to two months). The Group's export operations have never employed any other payment methods as a matter of corporate principle, and this is expected to continue in the future. Similarly, the Enlarged Group has never been engaged in forward transactions and does not expect to conduct these transactions in the future. The Directors believe that these policies effectively eliminate the foreign exchange risk. The Enlarged Group's export-related obligations in Ukraine, such as payments for raw milk and packaging materials, are all entirely Hryvna-denominated. The UAH/US Dollar exchange rate has been reasonably stable in recent years, and the Directors have no reason to believe that this is likely to change in the future.

Price risk

The Enlarged Group is exposed to commodity price risk for skimmed milk powder. The price for this product is predominately determined by the world market and the activities of large international trading companies in this market. There is always a risk that the prevailing world marketing price may be insufficient to cover the production costs for skimmed milk powder. Against such a risk, the Group recognises that there is no effective financial hedge, thus the major instrument employed in the management of the price risk is the tight control of the operating costs.

Credit risk

The Enlarged Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products both in Ukraine and abroad are made to customers with an appropriate credit history.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Enlarged Group's Treasurer aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest-rate risk

As the Enlarged Group has no significant interest-bearing assets, the Enlarged Group's income and operating cash flows are substantially independent of changes in market interest-rates.

The Enlarged Group's interest-rate risk arises from medium to long-term borrowings. Potentially, borrowings issued at variable rates expose the Enlarged Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Enlarged Group to fair value interest-rate risk. Enlarged Group policy is to maintain at least 80% of its borrowings in fixed rate instruments. At 31 December 2004, almost all of borrowings were at fixed rates.

4. SEGMENTAL ANALYSIS

The shareholders of the Enlarged Group put a particular emphasis on enhancing the vertical integration of the Enlarged Group. This emphasis necessitated separation of the product lines into distinguishable and analysable segments, in order to be able to identify the individual profitability of each segment. Therefore, from 2003, the Enlarged Group has gradually transformed its management reporting and control systems to reflect the segmental information to the extent required by its operating activities and the requirements of IFRS. Ukrainian Accounting Standards do not require the production of the segmental information to the same level as that required by IFRS.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Sales to external customers		
Butter	7,743	**9,512**
Cheese	5,807	**10,064**
Skimmed milk powder	3,167	**5,453**
Total dairy	16,717	**25,029**
Services	64	**188**
Other	816	**1,898**
	17,597	**27,115**
Profit before depreciation, interest and taxation		
Butter	501	**840**
Cheese	933	**2,187**
Skimmed milk powder	466	**565**
Total dairy	1,900	**3,592**
Services	—	**16**
Other	(7)	**27**
	1,893	**3,635**
Unallocated corporate expenses	(725)	**(1,042)**
Unallocated income from waiver of debt	250	**—**
	1,418	**2,594**
Depreciation		
Butter	22	**159**
Cheese	31	**286**
Skimmed milk	9	**46**
Total dairy	62	**491**
Services	—	**4**
Other	—	**25**
	62	**520**
Profit before interest and taxation		
Butter	479	**683**
Cheese	902	**1,904**
Skimmed milk	457	**519**
Total dairy	1,838	**3,106**
Services	—	**11**
Other	(7)	**2**
	1,831	**3,119**
Unallocated corporate expenses	(725)	**(1,049)**
Unallocated income from waiver of debt	250	**—**
	1,356	**2,070**

4. SEGMENTAL ANALYSIS continued

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Other information – Segment Assets		
Butter	1,225	**2,529**
Cheese	1,996	**4,603**
Skimmed milk powder	170	**989**
Total dairy	3,391	**8,121**
Services	—	**50**
Other	401	**1,145**
	3,792	**9,316**
Unallocated corporate assets	1,211	**662**
Unallocated deferred tax	—	**36**
Consolidated total assets	5,003	**10,014**
Other information – Segment Liabilities		
Butter	931	**380**
Cheese	571	**1,423**
Skimmed milk powder	452	**243**
Total dairy	1,954	**2,046**
Services	—	**22**
Other	51	**177**
	2,005	**2,245**
Unallocated corporate liabilities	1,387	**1,915**
Unallocated deferred tax	—	**703**
Consolidated total liabilities	3,392	**4,863**
Capital expenditure		
Butter	184	**301**
Cheese	520	**1,198**
Skimmed milk	60	**82**
Total dairy	764	**1,581**
Services	—	**2**
Other	3	**36**
	767	**1,619**
Unallocated capital expenditure	—	**19**
	767	**1,638**

NOTES TO THE FINANCIAL STATEMENTS continued

4. SEGMENTAL ANALYSIS continued

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Sales by market		
Ukraine	14,565	**22,669**
Denmark	938	**1,921**
Russia	412	**680**
Bulgaria	245	**228**
Holland	684	**205**
Japan	91	**—**
Other countries	662	**1,412**
	17,597	**27,115**

The majority of the Enlarged Group's recognised assets and liabilities are in Ukraine.

5. EXPENSES BY NATURE

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Depreciation	62	**523**
Changes in inventories of finished goods and work in progress	1,039	**(873)**
Raw materials and consumables used	13,750	**21,298**
Employee benefit costs	585	**1,373**
Other expenses	1,055	**2,788**
Total cost of goods sold, marketing and distribution costs and administrative expenses	16,491	**25,109**

6. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Wages and salaries	435	**995**
Social security costs	150	**378**
	585	**1,373**

Remuneration of key personnel

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Directors – Salaries	15	**20**
Other key personnel – Salaries	27	**44**

The Directors are those persons remunerated by the Enlarged Group who are to become Directors of Ukrproduct Group Ltd. Other than salaries, no benefits in kind were paid to the Directors or key management personnel.

7. TAXATION

Income tax comprised the following:

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Current tax charge – Ukraine	104	**250**
Current tax charge – non-Ukraine	42	**76**
Deferred tax relating to the origination and reversal of temporary differences	—	**(25)**
Income tax charge for the year	146	**301**

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 25% (2003: 25%).

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Reconciliation of tax charge		
Profit before tax – Ukraine	384	**520**
Profit before tax – non-Ukraine	878	**1,237**
	1,262	**1,757**
Tax calculated at domestic tax rates applicable to profits in the relevant countries	325	**430**
Net income not subject to tax and expenses not deductible for tax purposes	(179)	**(129)**
Tax charge	146	**301**

The weighted average applicable tax rate was 24.5% (2003: 25.7%). The charge is due to the changes in profitability of the companies comprising the Enlarged Group in the respective countries.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Deferred tax liability at beginning of the period	—	**—**
Deferred tax recognised in statement of income during the year	—	**(25)**
Deferred income tax arising on the revaluation of property, plant and equipment	—	**690**
Exchange differences on translation to the presentation currency	—	**2**
Deferred tax asset at end of the period	—	**36**
Deferred tax liability at end of the period	—	**703**

Ukraine currently has a system of taxation broadly similar in scope to those of the developed market economies. There are a number of laws related to various taxes imposed by both central and regional governmental authorities. Although laws related to these taxes have not been in force for significant periods, the practice of taxation and implementation of regulations are well established, documented with a sufficient degree of clarity and adhered to by the taxpayers. Nevertheless, there remain certain risks in relation to the Ukrainian tax system: few court precedents with regard to tax related issues exist; different opinions regarding legal interpretation may arise both among and within government ministries and regulatory agencies; and tax compliance practice is subject to review and investigation by a number of authorities with overlapping responsibilities.

Generally, tax declarations remain subject to inspection for an indefinite period. In practice, however, the risk of retroactive tax assessments and penalty charges decreases significantly after three years. The fact that a year has been reviewed does not preclude the Ukrainian tax service performing a subsequent inspection of that year.

The Enlarged Group's management believes that it has adequately provided for tax liabilities in the accompanying financial information; however, the risk remains those relevant authorities could take different positions with regard to interpretive issues.

8. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share has been calculated by dividing net profit attributable to the ordinary shareholders (profit for the year) by the weighted average number of shares that would have been in issue if the Enlarged Group had been a legally defined Group at 31 December and had applied the merger method (note 2(b)).

	Year ended 31 December 2003	**Year ended 31 December 2004**
Net profit attributable to ordinary shareholders, £ 000	1,111	**1,436**
Weighted number of ordinary shares in issue	30,000,000	**30,000,000**
Basic earnings per share, pence	3.7	**4.8**

Diluted earnings per share

There are no potentially dilutive shares in existence at the year end, hence diluted earnings per share has been calculated by dividing the net profit attributable to ordinary shareholders (profit for the year) by the weighted average number of shares that would have been in issue if the Enlarged Group had been a legally defined Group at 31 December and had applied the merger method (note 2(b)).

9. PROPERTY, PLANT AND EQUIPMENT

	Assets under construction	Land and buildings	Plant and machinery	Vehicles and equipment	Total
Cost or valuation					
Opening balance	40	412	439	347	1,238
Revaluation	289	4,130	573	187	5,179
Additions/transfers from assets under construction	3,110	155	488	881	4,634
Disposals	(2,393)	(450)	(45)	(427)	(3,315)
Exchange differences on translation to the presentation currency	(54)	(306)	(90)	150	(300)
Closing balance	**992**	**3,941**	**1,365**	**1,138**	**7,436**
Accumulated depreciation					
Opening balance	—	136	50	36	222
Revaluation	—	1,471	474	146	2,091
Depreciation charge for the year	—	132	90	298	520
Disposals	—	(115)	(23)	(41)	(179)
Exchange differences on translation to the presentation currency	—	(177)	(39)	(25)	(241)
Closing balance	**—**	**1,447**	**552**	**414**	**2,413**
Net book amount at 31 December 2004	**992**	**2,494**	**813**	**724**	**5,023**
Prior year amounts					
Depreciated cost at 1 January 2003	52	260	42	28	382
Additions in 2003	(7)	73	355	311	732
Disposal in 2003		(14)	(1)	(16)	(31)
Depreciation in 2003		(19)	(11)	(32)	(62)
Currency exchange differences	(5)	(23)	4	20	(4)
Depreciated cost at 31 December 2003	40	277	389	311	1,017

Fixed assets with a net book value of £2,339,288 as at 31 December 2004 (£44,000 at 31 December 2003) were pledged as collateral for loans.

The Enlarged Group obtained an estimated market value of all assets as at 1 January 2004 from an independent professional valuer BGS Asset on a depreciated replacement cost basis. The market valuation of the fixed assets of the Group was £4.2 million and the revaluation surplus net of applicable deferred income tax was credited to other reserves in shareholders' equity.

10. INTANGIBLE ASSETS

	Computer software £ 000
Cost or valuation	
At 1 January 2004	—
Additions	7
At 31 December 2004	**7**
Accumulated amortisation	
At 1 January 2004	—
Amortisation charge for the year	4
At 31 December 2004	**4**
Net book amount at 31 December 2004	**3**

11. INVESTMENTS

Details of investments, including the percentage of the share capital owned by the Enlarged Group, are as follows:

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Vash Molochnik (100%)	—	**—**
Balakonenko (50%)	—	**—**
Other listed and non-listed investments (less than 5% holding)	89	**83**
	89	**83**

Vash Molochnik SC was a subsidiary of Agrospetresursy LLC. Vash Molochnik SC has been inactive since November 2002 and has not been combined in this financial information as this company is in the process of solvent liquidation. Details of transactions and balances between the Group and this company are set out in note 24. Balakonenko LLC has not been combined in these accounts on the grounds of materiality.

Due to the lack of a developed market all investments have been valued at cost. The Enlarged Group's management believes that the carrying value of investments is not significantly different from fair value.

12. CASH AND CASH EQUIVALENTS

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Cash – in UAH	20	**2**
Bank – in UAH	92	**209**
Bank – in foreign currency	20	**89**
	132	**300**

13. INVENTORIES

	Year ended 31 December 2003 £'000	**Year ended 31 December 2004 £ 000**
Raw materials	497	**817**
Finished goods	900	**1,441**
Other inventories	210	**70**
	1,607	**2,328**

The cost of inventories, which is recognised as an expense and included in 'cost of sales', amounted to £20,425,000.

14. LOANS ISSUED

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Related parties	15	**201**
Other	—	**11**
	15	**212**

Loans issued are denominated in US Dollars and Hryvna, short-term in nature, unsecured and interest free.

15. RECEIVABLES AND PREPAYMENTS

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Trade debtors	1,283	**1,505**
Other debtors	144	**297**
Prepayments	485	**221**
VAT receivable	210	**5**
Prepaid profit tax	1	**1**
Other prepaid taxes	20	**—**
	2,143	**2,029**

There is no concentration of credit risk with respect to trade receivables as the Enlarged Group has a large number of customers, primarily in Ukraine.

The carrying value of receivables and prepayments approximates to fair value.

16. BANK LOANS AND OVERDRAFTS

Bank loans and overdrafts comprise a series of unsecured loans and overdrafts received from Ukrainian banks and denominated in Hryvna and Euro. The weighted average interest-rate for the loans outstanding at 31 December 2004 was 18.0% (31 December 2003: 19.25%).

The carrying value of bank loans and overdrafts approximates to fair value.

17. TRADE AND OTHER PAYABLES

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Trade creditors	168	**1,427**
Other creditors	178	**46**
Deferred income	—	**82**
Accruals	44	**105**
VAT and other taxation payable	36	**11**
	1,938	**1,671**

The carrying value of bank loans and overdrafts approximates to fair value. All balances are repayable on demand.

18. PROMISSORY NOTES

Promissory notes are denominated in Hryvna and are interest free (see note 24 for related party disclosure).

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Payable within 1 year	3	**—**
Payable in 1–2 years	22	**5**
Payable in 2–5 years	—	**—**
Payable in over 5 years	—	**—**
	25	**5**

The carrying value of promissory notes approximates to fair value.

19. LONG-TERM LOANS AND BONDS

Long-term loans are repayable in 2006 and, these balances with a face value of UAH 2,163,000, are interest free. The fair values of the interest free loans are based on cash flows discounted using a rate based on a borrowing rate of 18%. The carrying value of the remainder approximates to fair value.

In 2003 the Operating Group company Agrospetsresursy LLC issued bonds denominated in Hryvna with a face value of UAH 2,863,000. During the year ended 31 December 2004, this company issued further bonds with a face value of UAH 7,137,000. The bonds bear interest at 18% and mature on 8 November 2006. The carrying amounts approximate fair value.

20. SHARE CAPITAL

At 31 December 2004 the Company issued 30,000,000 shares of £0.10 per share at a par value conditional upon admission of the Company to the Alternative Investment Market of the London Stock Exchange.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Issued share capital	3,000	**3,000**

21. MINORITY INTEREST

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Opening balance	118	**68**
Share of profit/(loss)	5	**20**
Gain on revaluation	—	**75**
Deferred income tax on gain on revaluation	—	**(17)**
Reduction in minority interest on issue of new shares	(42)	**—**
Depreciation on revaluation of fixed assets	—	**(4)**
Exchange difference on translation to presentation currency	(13)	**(11)**
Closing balance	68	**132**

As at 31 December 2004 a minority interest of 4.8% (2003: 4.8%) was held in Molochnik OJSC.

22. MERGER RESERVE

The merger reserve arises on the application of the pooling of interests method of consolidation used to account for the combination of Ukrproduct and its subsidiaries.

23. CASH FLOWS FROM FINANCING ACTIVITIES

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Long-term loans		
Gross amount of new loans received	—	**295**
Repayment of loans	—	**(64)**
Net cash flows from long-term borrowings	—	**232**
Bonds		
Gross amount of new bonds issued	303	**783**
Repayment of bonds	—	**(103)**
Net cash flows from bonds	303	**680**
Promissory notes		
Gross amount of new promissory notes issued	156	**120**
Repayment of promissory notes	(86)	**(140)**
Net cash flows from issue of promissory notes	(70)	**(20)**

23. CASH FLOWS FROM FINANCING ACTIVITIES continued

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Short-term borrowings		
Gross amount of new short-term borrowings	315	**2,858**
Repayment of short-term borrowings	(917)	**2,711**
Net cash flows from short-term borrowings	602	**147**

24. RELATED PARTY TRANSACTIONS

For the purposes of this financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. At 31 December 2004 related parties of the Group included the following:

	Nature of relationship
Vash Molochnik SC	An uncombined 100% subsidiary
Teilhard Securities Inc	Common control
Ukrmolexpo	Common control
East European Venture Capital Inc	Common control
International Fund for Reconstruction and Development Inc	Shareholder of Group company
Advanced Dairy Technology Ltd	Shareholder of Group company
Densim Group Management SA	Shareholder of Group company
Global Dairy Corporation	Shareholder of Group company
Dairy Investment Group Inc	Shareholder of Group company
Burinsky Zavod of Dry Milk	Shareholder of Group company
Burinsky Zavod Sukhogo Obezhirennogo Moloka	Common control
Buhnmolprom	Common control
Krasilevsky Moloko Zavod	Common control
Krolevetsky Maslozavod	Common control
Starokonstantinovsky Zavod of Dry Milk	Common control
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	Common control
Terebovlya Zavod of Dry Non-fat Milk	Common control
Terebovlya Zavod of Dry Milk	Common control

Transactions and balances between the Enlarged Group and related parties are set out below. Sales to related parties were as follows. Sales were primarily of finished goods and were made at or near nil mark-up.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Sales		
Krasilevsky Moloko Zavod	950	**214**
Krolevetsky Maslozavod	137	**64**
Terebovlya Zavod of Dry Non-fat Milk	12	**—**
	1,099	**278**

24. RELATED PARTY TRANSACTIONS continued

Purchases from related parties are summarised below.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Purchases		
International Fund for Reconstruction and Development Inc	—	**116**
Krasilevsky Moloko Zavod	857	**330**
Krolevetsky Maslozavod	101	**44**
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	26	**—**
Terebovlya Zavod of Dry Non-fat Milk	21	**—**
Terebovlya Zavod of Dry Milk	—	**2**
Burinsky Zavod Sukhogo Obezhirennogo Moloka	26	**—**
	1,031	**492**

During the year ended 31 December 2003 Ukrmolexpo SC, a related party waived loan balances owed by Molochnik OJSC and Agrospetresursy LLC amounting to £250,000. This amount has been treated as income.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Debt forgiven		
Ukrmolexpo	250	**—**

Balances due from/(to) related parties at each period end are shown below.

	Year ended 31 December 2003 £ 000	**Year ended 31 December 2004 £ 000**
Outstanding balances at the year end		
Teilhard Securities Inc	—	**(3)**
Ukrmolexpo	(149)	**(7)**
International Fund for Reconstruction and Development Inc	—	**(111)**
Krasilevsky Moloko Zavod	206	**182**
Krolevetsky Maslozavod	(5)	**(4)**
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	32	**23**
Terebovlya Zavod of Dry Non-fat Milk	(15)	**7**
Terebovlya Zavod of Dry Milk	—	**(4)**
Burinmolprom	(1)	**(1)**
Net amounts due from related parties	68	**82**
Loans issued outstanding at the year end (note 14)		
Teilhard Securities Inc	15	**201**
Promissory notes outstanding at the year end (note 18)		
Ukrmolexpo	(25)	**(5)**

On 18 May 2004, CJSC Ukrproduct Group acquired the Operating Group for a consideration of £15.3 million satisfied by the issue of new shares. The acquisitions were all made from related parties by virtue of common control, namely Global Dairy Corporation, Densim Group Management, Advanced Dairy Technology Ltd, International Fund for Reconstruction and Development, East Europe Venture Capital Inc., Alfa-Broker Ltd and Dairy Investment Group Inc.

25. CURRENCY ANALYSIS

	UAH £ 000	US$ £ 000	Other currencies £ 000	Total £ 000
Assets				
Non-current assets				
Property, plant and equipment	5,012	11	—	5,023
Intangible assets	3	—	—	3
Investments	83	—	—	83
Deferred tax	36	—	—	36
Current assets				
Cash and cash at bank	211	62	27	300
Inventories	2,328	—	—	2,328
Loans issued	11	201	—	212
Receivables and prepayments	1,892	137	—	2,029
Total assets	9,576	411	27	10,014
Liabilities				
Current liabilities				
Bank loans and overdrafts	845	—	232	1,077
Trade and other payables	1,430	54	187	1,671
Promissory notes	—	—	—	—
Current income tax liabilities	150	96	7	253
Non-current liabilities				
Long-term loans	221	—	—	221
Bonds	933	—	—	933
Promissory notes	5	—	—	5
Deferred tax	703	—	—	703
Total liabilities	4,287	150	426	4,863

This note was prepared for the period ended 31 December 2004.

26. BRANDS

The Group owns the brand "Nash Molochnik", which translates into English as "Our Dairyman" "Narodny product" ("People's Product") and "Vershcova Doliyna" ("Creamy Valley"). These brands have been generated internally by the Enlarged Group and as such IFRS does not permit them to be recognised as an intangible asset. Therefore the brands have not been capitalised in this financial information.

27. EVENTS AFTER THE BALANCE SHEET DATE

On 11 February 2005 the Company was successfully admitted to the Alternative Investment Market of the London Stock Exchange. On this date, the Company issued 11,214,953 ordinary shares for cash consideration of £6 million before share issue costs and completed the legal acquisition of 100% of the share capital of CJSC Ukrproduct Group (Ukraine), Dairy Trading Corporation (BVI) and LinkStar Limited (Cyprus).

On the same date, the Company issued 912,028 share options to Directors and 1,302,896 share warrants to the Company's brokers at an exercise price of 53.5 pence each.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting ("AGM") of Ukrproduct Group Ltd will be held on Wednesday 29 June 2005 at 10.00am at the offices of CJSC Ukrproduct Group, 16th Floor, 39–41 Shota Rustaveli Street, 01033 Kyiv, Ukraine for the purposes of considering and, if thought fit, passing the following ordinary resolutions.

1. To receive and approve the Directors' Report and Financial Statements for the period ended 31 December 2004.
2. To elect Dr Jack Rowell as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
3. To elect Sergey Evlanchik as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
4. To elect Iryna Yevets as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
5. To elect Dr Dmitry Dragun as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
6. To elect Alexander Slipchuk as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
7. To elect David Lattimore as a Director of the Board in accordance with Articles 16 and 17 of the Company's Articles of Association.
8. To appoint BDO Stoy Hayward and IGK Ukraine to serve, either jointly or severally at the discretion of the Directors, as auditors of the Company for the financial year 2005 and to authorise the Board to determine their remuneration.
9. To receive and approve the Remuneration Committee Report.

Approved by and signed by order of the Board

Authorised Signatory
Bedell Cristin Secretaries Limited
Secretary

26 New Street
St. Helier
Jersey JE2 3RA
Channel Islands

3 June 2005

NOTICE OF ANNUAL GENERAL MEETING

NOTES

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.
3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders must be entered on the Company's share register at 6.00 pm on Monday 27 June 2005 in order to be entitled to attend and vote at the AGM. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of the service contracts of each of the Directors, and the register of Directors' interests in shares of the Company kept pursuant to section 325 of the Act will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the AGM and at the place of the AGM from at least 15 minutes prior to and until the conclusion of the AGM.

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