UKRPRODUCT GROUP LTD

Annual report and Financial statements 2005

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HIGHLIGHTS

February 05	Admission to trading on AIM, a market operated by the London Stock Exchange
March 05	The Group secures ownership of trademark "Druzhba" ("Friendship") in Ukraine
June 05	First AGM of Ukrproduct Group Ltd as a public company
June 05	Construction of the new processed cheese production plant in Zhytomyr completed
September 05	Reorganisation of the Marketing department into the Strategic Development and Marketing department
October 05	Raiffeisenbank Ukraine increases the size of the credit line to Ukrproduct Group to UAH 40 million (£4.5 million)
November 05	First acquisitions: Ukrproduct Group buys Jhmerinka Butter & Cheese Plant and Letichiv Dairy Plant
December 05	"Starokonstantinov Dairy Plant" is granted ISO 9001-2000 Quality Management System Certificate.

CHAIRMAN'S STATEMENT

2005 WAS A YEAR OF CONTINUED STRONG PERFORMANCE BY THE GROUP AS WE RETAINED OUR MARKET LEADING POSITIONS, IMPROVED THE OPERATIONAL EFFICIENCIES AND STRENGTHENED THE GROUP'S UNIQUE DISTRIBUTION OFFER.

I am pleased to announce the Group's first annual results as a public company following our successful admission to AIM in February 2005. The Group has maintained its market leading positions within its chosen segments of processed cheese and packaged butter at 29% and 21% respectively. We have continued to improve the Group's overall operational performance through the continued modernisation of our production facilities. Despite a challenging business environment UPG remains one of the most profitable and dynamic FMCG businesses in Ukraine.

Results

I am delighted to report a year of continued, strong growth for the company. Sales increased by 47% to £39.9 million (2004: £27.1 million) with operating profits (EBITDA) increasing by 34% to £3.5 million. Profit before taxes grew by 33% to £2.3 million. Profit margins improved at the gross level to 16.9% (2004: 16.3%).

Acquisitions

In November 2005 we completed the acquisitions of 100% of the share capital of Jhmerinka Butter & Cheese Plant Ltd and a 62% stake in Letichiv Dairy Plant for a total cash consideration of £1.3 million. The acquisitions provided the Group with the necessary increase in production and raw material capacity to meet consumer demand, as well as expanding the geographic coverage of the Group through the extension of our raw milk supply zone and product coverage. The Group is in the process of significantly improving the performance of both plants through the introduction of improved cost controls, leveraging of the distribution network and optimisation of the product mix.

Dividends

The Group is committed to a progressive dividend policy whilst maintaining a balance between reinvesting profits and distributing funds to shareholders. As a result, the Board is recommending a final dividend payment of 0.5 pence per ordinary share for the year ended 31 December 2005 which would lead to 0.85 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2006 to shareholders on the register as at 2 June 2006.

Strategy

Ukrproduct Group remains committed to its strategy of developing the market-leading positions in its two core segments of processed cheese and packaged butter as well as expanding the Group's product offering. The fragmented FMCG market in Ukraine also provides the Group with the opportunity to leverage its current strengths in order to react to opportunities as they arise and further increase its domestic presence.

The Group's manufacturing excellence has provided us with a key advantage in the Ukrainian FMCG market. We will continue to improve the operating performance of our plants both in terms of increased quality and efficiency, as evidenced by the planned redevelopment at Starkon and developments at Jhmerinka and Letichiv.

The strength of our brands remains the cornerstone of the business. We will continue to invest in each of our core brands whilst analysing future opportunities across the dairy based product segment that will drive the overall growth and profitability of the business.

Our distribution network continues to increase in size, furthering the geographic reach of the Group and the growth in the distribution of non-competing third party products. During 2006, Ukrproduct will continue to focus on leveraging the existing strength of the network to ensure that the Group remains at the forefront of supply chain development in Ukraine.

Succession Planning

Sergey Evlanchik has decided to step down as chief executive in order to dedicate more time to developing other business interests. He has been instrumental in UPG's success, establishing the Group as one of the market leaders in the Ukrainian FMCG sector and in leading the company to its admission on AIM in February 2005. He will, however, remain closely involved in the development of the company; allowing UPG to continue to benefit from his experience in his new role as an executive director. I am pleased to announce that Iryna Yevets, currently chief operating officer of UPG, will replace Sergey as CEO. These changes will take effect from 1 June 2006.

Iryna Yevets, (38) joined Ukrproduct Group in 2002 as Finance Director becoming COO in 2004. Prior to joining UPG, Iryna founded her own audit company in 1994 before becoming chief accountant in 2001 of Latoritsa, one of Ukraine's leading integrated food companies. Iryna holds an honours degree in Economics and Engineering from Lviv University and will shortly complete her MBA.

Over the last four years she has played a key part in developing the operating efficiencies of the Group, its distribution network and branded food products. Iryna's in-depth knowledge of the company and market will prove invaluable as UPG furthers its operational development and builds on its market leading positions. The Board and I look forward to working even more closely with her in the future.

On behalf of the Board, I would like to convey my appreciation to everyone in the Group for their help in ensuring the continuing success of the business.

Jack Rowell
Chairman

25 April 2006

CHIEF EXECUTIVE'S STATEMENT

IN THE PAST YEAR, UKRPRODUCT GROUP CONTINUED ITS DEVELOPMENT, MAINTAINED ITS MARKET LEADING POSITIONS AND IMPROVED THE GROUP'S BRANDS IN TERMS OF INCREASED PRODUCTION QUALITY AND EFFICIENCY.

Introduction
2005 was a dynamic and exciting year for the Group. Not only was it the Company's first year as a public entity, following its successful admission to AIM, but it was also a year of major changes in Ukraine initiated by the new government following the "Orange revolution" in late 2004.

It was a year of significant development for Ukrproduct Group with regards to operational performance, development of new products and expansion of Ukrproduct's geographic coverage. I am pleased to report that the Group was successful in maintaining its market leading shares in its key business segments of processed cheese and packaged butter.

Sales grew by 47% to £39.9 million (2004: £27.1 million); profit before interest, taxes, depreciation and amortisation (EBITDA) of £3.5 million was up 34% over the prior year. Profit before tax was £2.3 million, an increase of 33%. Net profit increased by 39% to reach £2.0 million. Gross profit margin base expanded to 16.9% (2004: 16.3%), EBITDA margin decreased from 9.6% in 2004 to 8.6% in the year under review, mainly as a result of increasing indirect costs. Net profit margin of 5.0% was broadly in line with the prior year's number of 5.3%. As highlighted in the trading update provided to the market in December 2005, margins were impacted by high raw material prices and lower prices for skimmed milk powder in the export market. However, we managed to address this impact through the introduction of new higher margin products and the renegotiation of raw milk prices as well as through the gradual implementation of increased pricing across our product range.

On 11 February 2005, Ukrproduct Group took a major step forward in its development plans. Following the restructuring of the Group, UPG was successfully admitted to AIM of the London Stock Exchange. The company raised £6 million gross on admission, and the Group's market capitalisation based on the placing price of 53.5p per share was approximately £22 million.

We were able to efficiently utilise the funds raised on admission to improve the operational performance of the Group through the strengthening of its sales and distribution network, completion of the new processed cheese workshop at Molochnik and the continued investment in the development of new products.

Operating review
The construction of the Group's new facility for the production of processed cheese at the "Molochnik" plant in Zhytomir was completed on schedule during the summer. Construction had commenced in May 2004. This plant, the biggest of its kind in Ukraine, allowed the Group to almost double the capacity of "Molochnik" to 2,000 tonnes of processed cheese per month, as well as to develop production space for new processed cheese products such as cheese spreads.

In November 2005 the Group completed the acquisition of 100% of the share capital of Jhmerinka Butter & Cheese Plant and 62% of the share capital of the Letichiv Dairy Plant. The Jhmerinka plant, located in the region of Vinnitza, Central Ukraine produces a regional range of well established processed cheeses and packaged butters. According to the official data of the Ukrainian State Committee of Statistics, it was the twelfth largest manufacturer of processed cheese in Ukraine in 2004. The Letichiv plant, located in Letichiv, Western Ukraine produces various dairy-based products such as cream, butter and casein with the capacity to collect up to 100 tonnes of raw milk per day. The acquisition of the plant expanded the Group's raw milk zone in the region, which is central for ensuring the continued supply of raw materials needed for the increase in production at the Starkon plant.

The production and sales of the Group progressed well despite slowing GDP growth and weaker consumer spending. The production of processed cheese increased by almost 20% to 14,700 tonnes, excluding the effect of acquisitions at the year end (FY2004: 12,300 tonnes), while the output of packaged butter was maintained at 9,200 tonnes (FY2004: 9,200 tonnes). The production of milk powder also increased during the year totalling over 3,700 tonnes (FY2004: 3,500 tonnes).

Market
The Group's core markets in Ukraine continued to demonstrate growth. The processed cheese market is estimated to have grown to nearly 50,000 tonnes in 2005, representing an increase of 17% over 2004. UPG's share in the processed cheese segment in 2005 was approximately 29%. During 2005, the packaged butter market grew by around 6% year on year with volumes estimated to have reached 42,900 tonnes by the year end. Ukrproduct's share of the packaged butter segment was approximately 21%. The skimmed milk powder market decreased slightly compared to 2004 totalling 73,000 tonnes. The Group's share of this output reached 5.1%.

Prospects
Taking into account the dynamic growth trends of our core markets in Ukraine, the Board constantly reviews and evaluates potential opportunities that will further the development of the Group.

We continuously aim to improve the operational efficiency of the Group and its high standards of quality. As a result, we are planning to commence the modernisation of the Starkon plant later this year. The majority of this work will involve the upgrading of equipment and is expected to be completed by the year end. These developments will increase its operational efficiency helping to reduce costs as well as further increasing the quality of the products produced such as milk powder.

Alongside the modernisation of Starkon, we plan to install equipment for the production of hard "cheddar" cheese. The construction of the plant is expected to take 12-18 months with the facility becoming fully operational by the third quarter of 2007. The total investment will be funded through a medium to long term credit facility.

The hard cheese sector in Ukraine represents a good opportunity for UPG to enter a growing and profitable market enabling the Group to increase its product base and sales. The hard cheese sector is estimated to be three times larger than processed cheese with an average growth rate of 20% per annum (2001-2005). There is an opportunity to deliver additional value through the conversion of the main byproducts of the production process, liquid milk derivatives, into skimmed milk powder. Since 2004, UPG has gained valuable experience in the sale and promotion of third party hard cheese through its distribution network. We plan to leverage the inherent strengths of the Company's unique distribution network, production, branding and quality control to ensure that UPG's domestic entry into this segment is as successful as possible.

We will continue to ensure that the purchasing and forward storage of raw materials is as cost effective as possible. The Group believes that this can be achieved via leveraging of the Company's purchasing power in the Khmelnitsky region, forward sales contracts and increased performance of the Starkon plant.

I would like to take this opportunity to welcome Iryna to the role of chief executive. I believe she is the ideal candidate to continue to drive the business forward. I look forward to remaining closely involved in the development of the company through my new role as an executive director.

I would like to express my gratitude to both the Management team and all of the employees of the Group who have been instrumental in our achievements and developments.

Outlook
Ukrproduct Group has delivered strong growth in sales and profits during 2005 due to our proven strategy set out at the time of our AIM IPO. UPG will continue to focus on driving the organic growth of the business by leveraging the strengths of its operating, manufacturing and distribution capabilities to take advantage of the opportunities within the dynamic, Ukrainian FMCG market. Ukraine's current negotiations with Russia have created some unpredictability within the Ukrainian economy. Nevertheless, current trading is in line with expectations and we seek further progress in 2006.

Sergey Evlanchik
Chief Executive Officer

25 April 2006

FINANCIAL REVIEW

2005 WAS ANOTHER YEAR OF STRONG GROWTH WHERE WE CONTINUED TO BENEFIT FROM THE EXCITING OPPORTUNITIES AFFORDED BY THE BUSINESS ENVIRONMENT IN UKRAINE. TWO BOLT-ON ACQUISITIONS HAVE PROVIDED THE GROUP WITH FURTHER COMPETITIVE IMPETUS AND WILL HELP TO UNDERPIN OUR SOLID FINANCIAL PERFORMANCE IN THE FUTURE.

Results

Sales have increased by 47% to £39.9 million (2004: £27.1 million) with the large part of this increase being achieved through organic growth. By segment, processed cheese accounted for 41% of sales (£16.2 million, 2004: £10.0 million), butter for 28% (£11.4 million, 2004: £9.5 million) and milk powders for 21% (£8.5 million, 2004: £5.4 million) with the balance made up by the third-party services. Profit before interest, taxes, depreciation and amortisation (EBITDA) of £3.5 million was up 34% over the prior year. Profit before taxes (PBT) was £2.3 million, an increase of 33%. Net profit increased by 39% to reach £2.0 million. Gross profit margin base expanded to 16.9% (2004: 16.3%), EBITDA margin decreased from 9.6% in 2004 to 8.6% in the year under review, mainly as a result of costs associated with being a listed company and our investment in Selling & Distribution which underpins our continued growth. Net profit margin is reported at 5.0%, a slight decrease over the prior year's number of 5.3%.

Acquisitions

In November 2005, the Group acquired 100% of the share capital of Jhmerinka Butter & Cheese Plant Ltd and a 62% stake in Letichiv Dairy Plant for a total cash consideration of £1.3 million. The acquisitions were financed through funds raised at flotation. In the year immediately preceding the acquisition, the plants had aggregated sales of £6 million and operating profits of £0.23 million. The Group intends to invest approximately £400K in aggregate capital expenditure for the plants in 2006. The performance of the acquired plants has been improved via a combination of key personnel changes, introduction of improved cost controls, leveraging of the distribution network and optimisation of the product mix.

Cash flow

The net cash flow from operating activities during the year was a negative £1.2 million. This reflected a substantial increase in trade receivables and inventories, the latter predominantly due to our new strategy to forward store semi-processed dairy materials in order to eliminate the uncertainty in supply of the materials to the Group's enlarged plants. The underlying cash generation of the Group remained strong, with the cash position increasing comfortably at the year end. The forward storage of raw materials has been completed which will further strengthen the cash flow this year.

Capital expenditure

Capital expenditure for the year was £3.5 million (2004: £1.6 million) funded by a combination of money raised at flotation and borrowed capital. The main areas of investment were the modernisation of the Group's manufacturing plants, purchase of new equipment, upgrade of the distribution facilities and increase in working capital.

Bank facilities

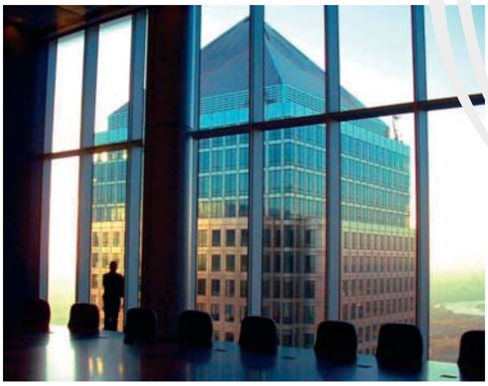
The Group has a working capital facility of up to £4.5 million provided by Raiffeisenbank Ukraine at variable interest rates in both Hryvna and US Dollar. The facility is renewable in May 2008 and has various clauses protecting the Group from excessive increases in interest rates and occurrence of other unexpected events. Further funding for working capital needs and project finance, if necessary, is available upon request from either the principal bankers or other banking institutions in Ukraine.

Earnings per share

The basic earnings per share (eps) in the year were 5.0 pence (2004: 4.8 pence), up 4%. The basic eps has been calculated by dividing net profit attributable to ordinary shareholders (profit for the year) by the time-weighted average number of shares in issue throughout the year. The diluted earnings per share were 4.8 pence for the year (2004: 4.8 pence).

Dividends

As a result of the Group's strong performance, the Board is recommending a final dividend of 0.5 pence per ordinary share for the year ended 31 December 2005 which would lead to 0.85 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2006 to shareholders on the register as at 2 June 2006.



Dmitry Dragun
Chief Financial Officer

25 April 2006

BOARD OF DIRECTORS AND CORPORATE ADVISERS

From left to right:
Dr Dmitry Dragun
Iryna Yevets
Alexander Slipchuk
Sergey Evlanchik
Dr Jack Rowell
David Lattimore

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 an experienced 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
Chief Financial Officer
Dr Dmitry Dragun is Chief Financial Officer of the Group. Dr Dragun worked at National (Central) Bank of Belarus in a variety of senior executive positions before joining the Oxford MBA Programme 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 financial and investment adviser, and was later appointed Chief Financial Officer of the Group. 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 his partner 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. Later in 1998, Alexander took the executive positions at the Molochnik and the Starakonstantinovskiy Dairy plants, Ukrproduct's two main operating assets. He serves as the Group's Executive Director responsible for strategic oversight of the Group's operations in Ukraine.

David Lattimore
Non-executive Director
David Lattimore is a Chartered Director with over thirty years' experience in the dairy industry with both Unigate plc and Dairy Crest plc. In both companies he held senior and director level positions within the Groups covering all aspects of their operations. 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 and he is also a Director and Chairman of the Finance Committee for South West Food and Drink Ltd.

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DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Ukrproduct Group Ltd for the year ended 31 December 2005.

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 dairy-based food producers in Ukraine with its own nationwide distribution network. More detailed commentary on the Group's activities during the year, its financial performance, 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 page 7. Paul Williams resigned as a Director on 20 August 2005. 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 25 April 2006, 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	14,237,383	34.5%
Densim Group Management SA	14,237,383	34.5%
Fidelity European Smaller Companies Fund	3,300,000	8.0%
Chase Nominees Limited	1,612,000	3.9%
The Bank of New York (Nominees)	1,322,197	3.2%
Bi Emerging Markets L.e.i.f	1,050,000	2.5%
Fitel Nominees Limited	1,000,000	2.4%
ING Bank N.V.	900,000	2.2%
HSBC Global Custody Nominee (UK)	585,000	1.4%
Citibank N.A.	550,000	1.3%

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 LLP served as auditors to the Group. The Board proposes to reappoint BDO Stoy Hayward LLP as auditors to the Group for the financial year 2006 at the AGM on 22 June 2006.

Statement of Directors' Responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the directors to:

- select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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 Secretaries Limited
Secretary
25 April 2006

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 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 two Non-executive and four Executive Directors. The biographical details of the Directors are shown on page 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 Board meets regularly to consider the financial results, budgets, and major items of capital expenditure of all the Group's companies. 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 by the Board. Teleconference calls 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, Jack Rowell

The Audit Committee consists of two Non-executive Directors. All members of the Audit Committee have relevant financial experience. 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 the shareholders. The Audit Committee is scheduled to meet at least three times per annum.

Remuneration Committee
Chairman, David Lattimore

The Remuneration Committee comprises two 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, 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 annual reports, interim statements, annual general meetings and the Company's corporate website (www.ukrproduct.com) as necessary.

The Group recognises that the increased transparency is an integral part of being a quoted company. As such the Group 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 consist of monthly budgets, which are updated each month once actual figures become available. Due to the dynamic development of the macroeconomic environment of the Group's main country of operations, Ukraine, variances in actual figures for sales, prices and other underlying assumptions from those forecasted 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 the Group's 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 fulfilling 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, workspace 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 current market demands. 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 maximum value is offered to customers on a consistent basis.

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 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 two 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;
- intend to align the interests of the Executives with those of the shareholders by means of 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 professional 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

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

The appointments of executive Directors are valid for an indefinite period and may be terminated with three months notice given by either party at any time. The Company's provision for compensation for loss of office is to provide compensation which reflects the Company's contractual obligations.

Bonus Scheme

The Committee has established a cash bonus scheme for Executive Directors based on the overall performance of the Company and attainment of the operating profit targets.

Non-executive directors

The appointments of non-executive Directors are valid for an indefinite period and may be terminated with three months notice given by either party at any time. 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' cash remuneration are outlined below:

	Annual Salary/fee £		Salary/fees £		Bonus £		Benefits in kind £		Total remuneration £	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Executive										
Sergey Evlanchik	50,000	60,000	8,333	56,667					8,333	56,667
Iryna Yevets	40,000	50,000	6,667	46,667					6,667	46,667
Alexander Slipchuk	45,000	45,000	7,500	45,000					7,500	45,000
Dr Dmitry Dragun	35,000	40,000	5,833	38,333		30,000			5,833	68,333
Non-executive										
Dr Jack Rowell	30,000	30,000	5,000	30,000					5,000	30,000
Paul Williams	25,000	25,000	4,167	15,942					4,167	15,942
David Lattimore	25,000	25,000	4,167	25,000					4,167	25,000

Share based payments

The Company has granted share based payments (share options) to the Directors during the year and details are shown below. The Directors' remuneration disclosed above does not include any amounts for the value of options to acquire shares of the Company.

Directors	Share Options	Exercise Price, pence	Exercise Period
Iryna Yevets	434,299	53.5	to 11/02/2009
Dr Dmitry Dragun	217,149	53.5	to 11/02/2009
Dr Jack Rowell	130,290	53.5	to 11/02/2009
David Lattimore	130,290	53.5	to 11/02/2009

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LTD

We have audited the group financial statements (the "financial statements") of Ukrproduct Group Ltd for the year ended December 31, 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with those financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of our engagement letter and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our engagement letter or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at December 31, 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
8 Baker Street, London

28 April 2006

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2005 £`000	As at 31 December 2004 (re-stated) £`000
Non-current assets			
Property, plant and equipment	6	9,034	5,023
Intangible assets	7	1,551	3
Investments	8	97	83
Deferred tax assets	9	90	36
		10,772	**5,145**
Current assets			
Inventories	11	4,523	2,328
Trade and other receivables	12	4,068	2,023
Other debtors	13	358	218
Cash and cash equivalents	14	453	300
		9,402	**4,869**
Total assets		**20,174**	**10,014**
Equity Aapital and reserves attributable to equity holders			
Share capital	15	4,121	3,000
Other reserves	16	5,192	607
Retained earnings		3,815	1,412
		13,128	**5,019**
Minority interest	27	186	132
Total equity		**13,314**	**5,151**
Liabilities			
Non-Current Liabilities			
Long term loans	17	152	221
Other long term liabilities	18		938
Deferred tax liabilities	9	837	703
		989	**1,862**
Current Liabilities			
Bank loans and overdrafts	19	3,042	1,077
Trade and other payables	20	2,606	1,671
Current portion of long term liabilities	18	67	
Current income tax liabilities		156	253
		5,871	**3,001**
Total equity and liabilities		**20,174**	**10,014**

These financial statements were approved and authorised for issue by the Board of Directors on April 25, 2006.

The notes on pages 21 to 43 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2005 £`000	Year ended 31 December 2004 (re-stated) £`000
Revenues	5	**39,962**	27,115
Costs of sales	21	**(33,194)**	(22,698)
Gross profit		**6,768**	4,417
Other operating income		**594**	63
General and administrative expenses	21	**(2,167)**	(1,045)
Selling and distribution expenses	21	**(2,084)**	(1,070)
Other operating expenses	21	**(563)**	(296)
Interest income		**41**	
Interest expense		**(244)**	(312)
Profit before taxation		**2,345**	1,757
Income tax expense	23	**(337)**	(301)
Profit after taxation		**2,008**	1,456
Attributable to:			
Equity holders		**2,003**	1,436
Minority interest	27	**5**	20
Earnings per share basic, pence	24	**5.0**	4.8
Earnings per share diluted, pence	24	**4.8**	4.8

The notes on pages 21 to 43 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Cash flows from operating activities			
Net profit before taxation		**2,345**	1,757
Adjustments for:			
Exchange difference		**(594)**	
Depreciation	6, 7, 21	**892**	524
Interest expense		**244**	312
Interest income		**(41)**	
Share based payments	23, 24	**76**	
		2,922	2,593
(Increase) in inventories		**(1,507)**	(872)
(Increase) in trade and other receivables		**(1,026)**	(71)
(Decrease)in trade and other payables		**(990)**	(349)
Cash (used by)/ generated from operations		**(601)**	1,301
Interest paid		**(244)**	(312)
Interest received		**41**	
Income tax paid/ (refunded)		**(384)**	(66)
Net cash (used in)/ generated by operating activities		**(1,188)**	923
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,480)**	(1,566)
Purchase of investments (net of cash acquired)	10	**(1,282)**	1
Proceeds from sale of property, plant and			3
Proceeds from sale of investments			(7)
Loans repaid/ (issued)		**197**	(207)
Net cash used in investing activities		**(4,565)**	(1,776)
Cash flows from financing activities			
Net proceeds/ (repayments) from long term borrowing		**(99)**	232
Proceeds/ (repayments) from issue of bonds		**(964)**	680
Proceeds from issue of shares		**5,519**	
Cash paid on liquidation of Ukrproduct Group plc	3(c)	**(12)**	
Fund-raising expenses		**(361)**	
Dividends paid	26	**(148)**	
Net proceeds from issue of promissory notes			(20)
Net proceeds from issue of promissory notes		**1,656**	147
Net cash generated by/ (used in) financing activities		**5,591**	1,039
Effect of exchange rate changes and restatements on cash and cash equivalents		**315**	(18)
Net increase/(decrease) in cash and cash equivalents		**153**	168
Cash and cash equivalents at the beginning of the year	14	**300**	132
Cash and cash equivalents at the end of the year	14	**453**	300

The notes on pages 21 to 43 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Attributable to equity holders				
	Notes	Share capital £`000	Other reserve £`000	Retained earnings £`000	Minority interest £`000	Total equity £`000
Balance at 1 January 2004		**3,000**	**(1,414)**	**(44)**	**68**	**1,610**
Gain on revaluation of fixed assets			3,073		75	**3,148**
Deferred income tax on gain on revaluation			(674)		(16)	**(690)**
Issue of shares		15				**15**
Issued on acquisition of Operating Group		15,273				**15,273**
Merger reserve arising on acquisition of Operating Group			(15,288)			**(15,288)**
Net profit for the period				1,436	20	**1,456**
Depreciation on revaluation of fixed assets			(154)	158	(4)	
Elimination of share issued and Merger reserve on acquisition of Operating Group		(15,288)	15,288			
Exchange differences on translation to the presentation currency			(224)	(138)	(11)	**(373)**
Balance at 31 December 2004		**3,000**	**607**	**1,412**	**132**	**5,151**
Issue of shares	15	1,121	4,398			**5,519**
Fund-raising expenses			(361)			**(361)**
Share based payments	25		76			**76**
Exclusion from Group			(12)			**(12)**
Acquisitions	10				62	**62**
Net profit for the period				2,003	5	**2,008**
Dividends paid	26			(148)		**(148)**
Depreciation on revaluation of fixed assets			(108)	108		
Reduction of revaluation reserve			(25)	25		
Decrease of minority interest			(28)	15	(43)	
Exchange differences on translation to the presentation currency			589	400	30	**1,019**
Balance at 31 December 2005		**4,121**	**5,192**	**3,815**	**186**	**13,314**

The notes on pages 21 to 43 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Group and Principal Activities

The Company is a public limited liability company registered in Jersey with its registered office at 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

For the purposes of this financial information the terms "Operating Group" and "Group" have been taken to indicate the companies listed in Note 3(c). The "Operating Group" includes all those subsidiaries of Ukrproduct Group Ltd (the "Company") that operate on the territory of Ukraine. The "Group" includes the Company and all of its subsidiaries. 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.

The Group's main activity is production and distribution of dairy-based food products (butter, processed cheese, milk powders) in Ukraine and abroad. The Group's sales in Ukraine are managed and facilitated by its own pan-Ukrainian distribution network, with a trading company Agrospetsresursy, and a logistics subsidiary Ukrproduct-Logistics. The distribution and logistics network currently employs almost 450 employees and makes use of around 140 vehicles and refrigerated vans.

The Group's exports are managed by the Company's two subsidiaries: Ukrprodexpo and Dairy Trading Corporation. Capitalising on the Group's strong reputation for quality and business excellence, these companies collaborate with the international traders and partners and export the products, mainly skimmed milk powder, to Germany, Russia, Denmark, Holland, Bulgaria and other countries.

The Group's overall management and production facilities are based in Ukraine, with the HQ in Kyiv. The Group commands leading positions in the Ukrainian processed cheese and packaged butter markets and owns a range of widely recognisable trademarks in Ukraine, including "Nash Molochnik", "Narodniy Product", "Vershkova Dolina". The average number of employees of the Group during the year ended 31 December 2005 was 1,805 (2004 1,194).

2. Operating Environment of the Group

The main activities of the Operating Group are concentrated in Ukraine, a country which continues to display characteristics of an emerging market.

The prospects for future economic stability in Ukraine are largely dependent upon the effectiveness of the economic measures and reforms undertaken by the government, together with legal, regulatory and political developments, which are beyond the control of the Group.

3. Significant Accounting Policies

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

a) Basis of Preparation

The consolidated financial statements have 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 Operating Group maintain their accounting records in accordance with 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 Operating Group are maintained in Ukrainian Hryvnas ("UAH"). The Hryvna has also been adopted as the functional currency for the purpose of the consolidated financial statements (see note 3d).

The financial information has been translated into British pounds sterling (hereinafter GBP or £) at the rates given in note 3(r), as the Group's presentational currency.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment at fair value in the years ended 31 December 2004 and 2005.

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

b) Changes in accounting policies

In preparing these financial statements, the following standards have been applied by the Group for the first time:

IFRS 2 "Share-based payment" has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2005. There was no effect on the adoption of the IFRS 2 on the comparative figures as the Group had no share based payments (options) in issue. For 2005, the impact of share-based payment is a net charge to income of £76,000. At 31 December 2005, the share options reserve amounted to £196,000. The share-based payment expense has been included in the following line of the income statement: administrative expenses £76,000 (2004 - £nil).

IFRS 3 "Business Combinations" has been applied to the accounting for business combinations for which the agreement date is on or after 31 March 2004. This IFRS has also been applied to the accounting for goodwill arising from a business combination for which the agreement date is on or after 31 March 2004, or any excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for which the agreement date is on or after 31 March 2004. There was no effect of the adoption of IFRS 3 on the Group's comparative numbers and financial statements as there was no goodwill as at 31 December 2004. The effect of the implementation of IFRS 3 resulted in the recognition of goodwill arising from business combinations during 2005 is detailed in Note 7 (Intangible assets) and Note 10 (Acquisition of subsidiaries).

c) Principles of combination and consolidation

The consolidated financial statements include the results of the companies set out in the table below. As described in note 1, the Group is comprised of a number of companies which were brought together under a single parent company - Ukrproduct Group Ltd - on 11 February 2005.

The companies which became subsidiaries of Ukrproduct Group Ltd on 11 February 2005 were Ukrproduct Group CJSC, Dairy Trading Corporation Ltd and Linkstar Ltd. All three companies were ultimately 100% owned equally by Crensel Finance Ltd and Densim Group Management SA, companies which had incorporated Ukrproduct Group Ltd and were its 100% owners. On 11 February 2005 Crensel Finance Ltd and Densim Group Management SA made a share exchange with Ukrproduct Group Ltd, granting to the latter all their interests in Ukrproduct Group CJSC, Dairy Trading Corporation Ltd and Linkstar Ltd in exchange for the newly issued shares by Ukrproduct Group Ltd. As a result of these share exchange transactions Ukrproduct Group Ltd came into full possession of Ukrproduct Group CJSC, Dairy Trading Corporation Ltd and Linkstar Ltd, while Crensel Finance Ltd and Densim Group Management SA retained full possession of the enlarged share capital (30 mln shares) of Ukrproduct Group Ltd. As the transactions in which Ukrproduct Group Ltd took control of the other Group companies may be defined as transactions under common control, these transactions fall outside the scope of IFRS.

IFRS contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This Guidance is included in paragraphs 10 to 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This requires, inter alia, that where IFRS do not include guidance for a particular issue, the directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United States Financial Accounting standards Board (FASB) has issued an accounting standard covering business combinations (FAS141) that is similar in a number of respects to IFRS3. Further there is currently a major project being run jointly by the IASB and FASB to converge IFRS and US GAAP.

In contrast to IFRS3, FAS141 does include, as an Appendix, limited accounting guidance for transactions under common control which, as with IFRS3, are outside the scope of that accounting standard. The guidance contained in FAS141 indicates that a form of accounting that is similar to pooling of interests accounting, which was previously set out in APB Opinion 16, may be used when accounting for transactions under common control.

Having considered the requirements of IAS8, and the guidance included within FAS141, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which Ukrproduct Group Ltd acquired its controlling interests in Ukrproduct Group CJSC, LinkStar Limited, and Dairy Trading Corporation Limited.

In consequence, the results of operation for the period should be reported as though the acquisition of the controlling interest through transaction under common control occurred at the beginning of the period. The effects of intercompany transactions should be eliminated in determining the results of operation for the period prior to the acquisition of the controlling interest. This means that those results are on substantially the same basis as the results of operations for the period after the acquisition of the controlling interest. Similarly, the consolidated balance sheets and other financial information should be presented as though the assets and liabilities of the combining entities had been transferred at the beginning of the period, i.e. 1 January 2005. Financial statements and other financial information presented for prior years should also be restated to furnish comparative information. All restated financial statements and summaries should indicate clearly that financial data of previously separate entities is combined

The results and balances of the following companies have been consolidated:

	Country of incorporation	Group holding	Method of	
			2005	2004
Molochnik OJSC	Ukraine	97.4%	Acquisition method	Acquisition method
Ukrprodexpo SC	Ukraine	100%	Acquisition method	Acquisition method
Starokonstantinovskiy Molochniy Zavod SC	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy LLC	Ukraine	100%	Acquisition method	Acquisition method
Torgoviy Dom Maslyana SC *	Ukraine	100%	Acquisition method	Acquisition method
Torgoviy Dom 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	Acquisition method
Intermilk SC	Ukraine	100%	Acquisition method	Acquisition method
Ukrevroprodukt SC*	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy - Kharkov SC*	Ukraine	100%	Acquisition method	Acquisition method
Nash Molochnik Private Enterprise SC*	Ukraine	100%	Acquisition method	Acquisition method
Ukrproduct-Logistics Private Enterprise	Ukraine	100%	Acquisition method	Acquisition method
Ukrproduct Group CJSC	Ukraine	100%	Merger method	Merger method
Krasilovsky Molochny Zavod Private Enterprise SC	Ukraine	100%	Acquisition method	n/a
Jmerinsky Maslosyrzavod LLC	Ukraine	62.2%	Acquisition method	n/a
Letichevsky Maslozavod OJSC	Ukraine	100%	Acquisition method	n/a
Agrospetsresursy Zhytomyr SC*	Ukraine	100%	n/a	Acquisition method
Dairy Trading Corporation	USA	100%	N/a	Merger method
Alfa-Broker Ltd	U	100%	n/a	Merger method
Ukrproduct Group plc	U	100%	n/a	Acquisition method
Linkstar Limited	Cyprus	100%	Acquisition method	Merger method
Dairy Trading Corporation	BVI	100%	Merger method	Merger method
Ukrproduct Group Limited	Jersey		Parent	Parent

* Subsidiaries of Agrospetsresursy LLC, the Operating Group's specialised distribution companies (also refer to note 6 for additional Agrospetsresursy subsidiaries recorded at cost).

Between 30 June 2004 and 31 January 2005 Alfa-Broker Ltd transferred its principal business and assets to Linkstar Limited, a subsidiary of the Company registered in Cyprus. As at January 1, 2005, Dairy Trading Corporation (USA) had transferred its net assets to Dairy Trading Corporation (BVI).

Intermilk SC is in the process of solvent liquidation. Alfa-Broker Ltd, Dairy Trading Corporation (USA), and Ukrproduct Group plc (UK) have been liquidated.

During 2005, Ukrproduct Group CJSC (the Ukrainian holding company of the Operating Group) has established Krasilovsky Molochny Zavod Private Enterprise SC and also acquired companies Jmerinsky Maslosyrzavod LLC and Letichevsky Maslozavod OJSC. The effect of the acquired companies to the net assets of the Group is disclosed in Note 10.

d) Translation from functional to presentation currency

Management has considered what would be the most appropriate functional and presentational currencies for these financial statements. As a result of this review management has concluded that:

(i) the Ukrainian Hryvna is the currency of the primary economic environment in which the Group operates. Consequently the Ukrainian Hryvna is the most appropriate functional currency for the Group;

(ii) the Group should use British pounds sterling as the presentational currency for its Consolidated IFRS financial statements.

Consequently, management has used the following basis for the translation of Ukrainian Hryvna figures to British pounds for presentation purposes:

(i) for current year figures all assets and liabilities are translated at the rate effective at the balance sheet date. Income and expense items are translated at average rate for the year. 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 rate effective 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.
(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 3(r) below.

e) 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.

The Group has recognised business segments as primary format of segment reporting. The secondary format was chosen to be the geographical segment.

f) Property, plant and equipment
Figures calculated using 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 Group adopted the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets. The Group's assets were revalued in January 2004. 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 Group. In accordance with the provisions of that standard, the revaluation model has not been applied retrospectively.

All categories of property, plant and equipment are subsequently carried at fair value, based on periodic (usually triennial) valuations by a professionally qualified valuer. Changes in fair value are recognised in equity (the "revaluation reserve"). An appropriate transfer is made from the revaluation reserve to the profit and loss reserve when freehold land and buildings are expensed through the income statement (eg through depreciation, impairment or sale).

Depreciation is applied to all items of property, plant and equipment with the exception of land. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20-40 years;
Plant and machinery	7-15 years;
Equipment and motor vehicles	3-10 years.

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

g) Assets under construction
Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the Group's material costs incurred. 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 depreciated at applicable rates from the time the asset is completed and ready for use.

h) Intangible assets

Acquired computer software licences 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 (3 years). The amortisation expense is included within administrative expenses in the Income Statement.

Trademarks are shown at historical cost. Trademarks have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).

i) Goodwill

Goodwill is excess of acquisition costs above the fair value of the Group's share in the net assets of a subsidiary or an associated company at the acquisition date. Goodwill is reported in intangible assets with any impairment being charged to the Income Statement within administrative expenses. Goodwill is annually assessed with respect to the impairment of value and reported at cost net of total loss from impairment of value. Gains or losses on disposal of a subsidiary includes in the book value of goodwill related to the subsidiary sold.

j) Impairment of assets

Assets with indefinite useful life are not amortised and are annually assessed with respect to the impairment of their value. Assets subject to amortization are assessed with respect to the impairment of their value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Whenever the carrying amount of an asset exceeds its recoverable value, an impairment loss is recognised in income. At that the recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present discounted value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal after the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit.

Impairment charges are included in the administrative expenses line item in the Income Statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

k) Investments

The 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 in section (c) above, where such companies are not expected to become subsidiaries of the Company, they have been excluded from the consolidation and are treated as investments.

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

l) 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 and unfinished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

m) Trade receivables

Trade receivables are carried at 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 Operating Group will not be able to collect all amounts due according to the original terms of receivables.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on 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.

o) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

p) Revenue recognition

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Group. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenues and expenses are recognised on an accruals basis.

q) Income taxes

Taxation has been provided for in the financial statements in accordance with relevant legislation currently in force. The charge for taxation in the Income Statement 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.

r) Foreign currency translation

Transactions denominated in currencies other than the Hryvna ("foreign currencies") are recorded in Hryvna at the exchange rate effective on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement using the effective exchange rate 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 Income Statement as foreign exchange translation gains and losses.

Income and expense figures have been converted to British pounds for presentation purposes at average rate for the year. Assets, liabilities and equity items have been converted to British Pounds (£) for presentation purposes at a closing rate. The resulting exchange differences were recognised as a separate component of equity.

For translation of the financial data, the exchange rates of Ukrainian Hryvna to GBP and USD officially set by the National Bank of Ukraine were used. The weighted average rate for the year was calculated based on the daily exchange rates officially set by the Bank of Ukraine.

	Hryvna for 1 GBP (£)	Hryvna for 1 USD ($)
Official rate as at December 31, 2005	8.6759	5.0500
Official rate as at December 31, 2004	10.1827	5.3054
Weighted average rate for 2005	9.3129	5.1213
Weighted average rate for 2004	9.7391	5.3192

s) Pension costs

The Group contributes to the Ukrainian state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred and are included in staff costs. The Group doesn't operate any other pension schemes.

t) Financial instruments

The carrying amounts of the 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.

u) Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

v) Share issue costs

All qualifying transaction costs in respect of the issue of shares are accounted for as a deduction from equity, net of any related tax deduction. Qualifying transaction costs include:

- Costs of preparing the prospectus
- Accounting, tax and legal expenses
- Underwriting fees
- Valuation fees in respect of the shares and of other assets

w) Borrowing costs

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

4. Financial risk factors

The 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group Treasurer under policies approved by the Board of Directors. The Group Treasurer identifies and evaluates financial risks in close co-operation with the 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, and investing excess liquidity.

Market risk

Foreign exchange risk

Although the Group is an international operator, the management believe that the foreign exchange risk is minimal at present and is likely to remain so in the future. The Group's international operations consist primarily of the export of milk powders to the various markets around the world. The primary currency for export sales is the US dollar.

The Group's established corporate policy towards minimising the potential foreign exchange risk is to require the 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 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 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; the directors have no reason to believe that this is likely to change in the future.

Price risk

The Group is exposed to commodity price risk for its milk powders business segment. 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 management of the price risk is the tight control of the operating costs.

Credit risk

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

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

5. Segment information

At 31 December 2005, the Group was organised on a worldwide basis into three main business segments:

(1) Cheese

(2) Butter

(3) Milk powders

The segment results for the year ended 31 December 2005 are as follows:

	Cheese £`000	Butter £`000	Milk powders £`000	Total Dairy £`000	Services £`000	Other £`000	Total £`000
Sales to external customer	16,251	11,374	8,515	36,140	627	3,195	39,962
Gross profit	**3,794**	**1,689**	**972**	**6,455**	**110**	**203**	**6,768**
Administrative expenses	(966)	(599)	(148)	(1,713)	(26)		(1,739)
Selling and distribution expenses	(1,256)	(673)	(18)	(1,947)	(31)		(1,978)
Unallocated operating income/expenses							(503)
Interest income							41
Interest expenses							(244)
Profit before taxation	**1,572**	**417**	**806**	**2,795**	**53**	**203**	**2,345**
Taxation							(337)
Profit after taxation	**1,572**	**417**	**806**	**2,795**	**53**	**203**	**2,008**
Segment assets	9,994	5,063	1,558	16,615	243	847	17,705
Unallocated corporate assets							2,379
Unallocated deferred tax							90
Total assets	**9,994**	**5,063**	**1,558**	**16,615**	**243**	**847**	**20,174**
Segment Liabilities	904	589	162	1,655	54	379	2,088
Unallocated corporate liabilities							3,935
Unallocated deferred tax							837
Total liabilities	**904**	**589**	**162**	**1,655**	**54**	**379**	**6,860**
Other segment information:							
Depreciation	525	241	89	855	13		868
Unallocated Depreciation							24
Capital expenditure	2,593	686	240	3,519	45	4	3,568
Unallocated Capital expenditure							29

The segment results for the year ended 31 December 2004 are as follows:

	Cheese £`000	Butter £`000	Milk powders £`000	Total Dairy £`000	Services £`000	Other £`000	Total £`000
Sales to external customer	10,064	9,512	5,453	25,029	188	1,898	27,115
Gross profit	**2,357**	**1,175**	**820**	**4,352**	**12**	**53**	**4,417**
Other operating income/expenses	(453)	(492)	(301)	(1,246)	(1)	(51)	(1,298)
Unallocated							
operating income/expenses							(1,050)
Interest expenses							(312)
Profit before taxation	**1,904**	**683**	**519**	**3,106**	**11**	**2**	**1,757**
Taxation							(301)
Profit after taxation	**1,904**	**683**	**519**	**3,106**	**11**	**2**	**1,456**
Segment assets	4,604	2,529	989	8,122	(50)	1,145	9,317
Unallocated corporate assets							662
Unallocated deferred tax							35
Total assets	**4,604**	**2,529**	**989**	**8,122**	**50**	**1,145**	**10,014**
Segment Liabilities	1,423	380	243	2,046	22	177	2,245
Unallocated corporate liabilities and							
shareholders' equity							1,915
Unallocated deferred tax							703
Total liabilities	**1,423**	**380**	**243**	**2,046**	**22**	**177**	**4,863**
Other segment information:							
Depreciation	286	159	46	491	4	25	520
Unallocated depreciation							
Capital expenditure	1,198	301	82	1,581	2	36	1,619
Unallocated Capital expenditure							19

Secondary reporting format geographical segments:

Sales by country	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Ukraine	**33,689**	22,669
Germany	**2,179**	
Russia	**1,376**	680
Denmark	**669**	1,921
Holland	**479**	205
Bulgaria	**431**	228
Azerbaijan	**293**	
Poland	**184**	
Other countries	**662**	1,412
	39,962	27,115

The majority of the Group's recognised assets and liabilities are in Ukraine. Sales to the countries in Europe represent sales to international traders of milk powders located in Europe. These traders consequently resell the milk powders to other countries worldwide.

6. Property, plant and equipment

	Assets under Construction £`000	Land and Building £`000	Plant and Machinery £`000	Vehicles and equipment £`000	Total £`000
Cost or valuation					
Opening balance	992	3,941	1,365	1,138	7,436
Acquisition	3	138	240	204	585
Additions / transfers from AUC	3,257	1,219	1,210	1,312	6,998
Disposals	(3,401)	(8)	(53)	(148)	(3,610)
Exchange differences on translation to the presentation currency	162	798	364	319	1,643
Closing balance	**1,013**	**6,088**	**3,126**	**2,825**	**13,052**
Accumulated depreciation					
Opening balance		1,447	552	414	2,413
Acquisition		63	96	111	270
Depreciation charge		113	219	537	869
Disposals		6	(21)	(44)	(59)
Exchange differences on translation to the presentation currency		271	127	127	525
Closing balance		**1,900**	**973**	**1,145**	**4,018**
Net book amount at 31 December 2005	**1,013**	**4,188**	**2,153**	**1,680**	**9,034**
Cost or valuation					
Opening balance	40	412	439	347	1,238
Revaluation	289	4,130	573	187	5,179
Additions / transfers from AUC	3,110	155	488	881	4,634
Disposals	(2,393)	(450)	(45)	(427)	(3,315)
Exchange differences on translation of 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		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**

Fixed assets with a net book value of £4,453,000 as at 31 December 2005 (£2,339,000 at 31 December 2004) were pledged as collateral for loans.

The assets of the Group were revalued in January 2004 according to the revaluation policy. The valuation included a combination of different methods used by independent appraisers. It was carried out by "Podilia-Expert" LLC (Ukraine), who valued the assets using the cost and comparables method, and by "BGS-Aktiv" LLC (Ukraine), who used the asset cash generating method. The company expects to conduct the valuation of the assets of the Group in January-February 2007.

7. Intangible assets

	Computer software £`000	Trade Marks £`000	Goodwill £`000	Total £`000
Cost				
At 1 January 2005	**7**			**7**
Acquisition				
Additions	11	383	1,069	1,463
Disposals	(1)			(1)
Exchange differences on translation to the presentation currency	3	28	79	110
At 31 December 2005	**20**	**411**	**1,148**	**1579**
Accumulated amortisation				
At 1 January 2005	**5**			**5**
Acquisition				
Amortisation charge for the year	5	18		23
Disposals	(2)			(2)
Exchange differences on translation to the presentation currency	1	1		2
At 31 December 2005	**9**	**19**		**28**
Net book amount at 31 December 2005	**11**	**392**	**1,148**	**1,551**
Cost				
At 1 January 2004				
Acquisition				
Additions	7			7
Disposals				
Exchange differences on translation to the presentation currency				
At 31 December 2004	**7**			**7**
Accumulated amortisation				
At 1 January 2004				
Acquisition				
Amortisation charge for the year	4			7
Disposals				
Exchange differences on translation to the presentation currency				
At 31 December 2004	**4**			**4**
Net book amount at 31 December 2004	**3**			**3**

As of 31 December 2005 the Group had acquired the brand names "Nash Molochnik" (in English "Our Dairyman"), "Narodny product" ("People's Product") and "Vershkova Dolyna" ("Creamy Valley") from Alfa-Broker Ltd.

8. Investments

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

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Balakonenko (50%)		
Other listed and non-listed investments (less than 5% holding)	**97**	83
	97	83

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

Exclusion from the Group. Ukrproduct Group plc was registered in the UK in 2004 with the intention of becoming the ultimate holding company for the Group upon reorganisation and a public entity via IPO on the London Stock Exchange. Later in 2004, the management decided that the purpose of the ultimate holding company will be best served by a company based in Jersey, to which effect Ukrproduct Group Ltd, Jersey was created. Thus Ukrproduct Group plc lost its sole business purpose, was excluded from the Group and solvently liquidated in December 2005.

9. Deferred tax

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Deferred tax asset at the beginning of the period	**36**	
Deferred tax liability at the beginning of the period	**(703)**	
Deferred tax recognised in income statement during the year (Note 23)	**35**	25
Deferred income tax arising on the revaluation of property, plant and equipment		(690)
Exchange differences on translation to the presentation currency	**(115)**	(2)
Deferred tax asset at the end of the period	**90**	36
Deferred tax liability at the end of the period	**(837)**	(703)

10. Acquisition of subsidiaries

On 1 November 2005, Ukrproduct Group CJSC acquired 62.2 % of the share capital of Letichevsky Maslozavod OJSC and 100 % of the share capital of Jmerinsky Maslosyrzavod LLC (both are dairy products production plants). These acquisitions gave rise to Goodwill of £1,148,000.

If the acquisition had occurred at the beginning of the period (1 January 2005), Group revenue would have been £43,527,000 and profit before tax would have been £2,463,000.

	Letichevsky Maslozavod OJSC £`000	Jmerinsky Maslosyrzavod LLC £`000	Total £`000
Non-Current Assets			
Property, Plant and equipment	122	234	356
Current assets			
Cash and cash at bank	1	17	18
Inventories	16	151	167
Receivables and prepayments	519	374	893
Total current assets	536	542	1,078
Total assets	658	776	1,434
Trade and other payable	484	736	1,220
Net assets	174	40	214
Minority interest (37.8%)	(62)		(68)
Net assets acquired	**112**	**40**	**152**
Acquisition price			1,300
Goodwill			**1,148**
Purchase consideration settled in cash			1,300
Cash and cash equivalents in subsidiary acquired			(18)
Cash outflow on acquisition			**1,282**

These companies have been consolidated into the Group. The management are planning to appraise the assets acquired within 12 months after the acquisition date in order to reflect their fair value in the financial statements of the next reporting period.

11. Inventories

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Raw materials	**2,714**	817
Finished goods	**1,140**	1,441
Other inventories	**669**	70
	4,523	2,328

As at 31 December 2005 inventories with a value of £2,439,000 were pledged as collateral for the loan of £3,042,000 received from Raiffeisen Bank Ukraine (no inventories were pledged as collateral as at 31 December 2004).

12. Trade and other receivables

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Trade debtors	**3,282**	1,505
Other debtors	**449**	297
Prepayments	**337**	221
	4,068	2,023

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

13. Other Debtors

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
VAT receivable	**315**	5
Prepaid profit tax	**6**	1
Loans issued (to related parties)		201
Loans issued (to other parties)	**37**	11
	358	218

Loans issued are denominated in Hryvna, are short term in nature, and are interest free. Loans include £24,000 issued to contracted transporters of goods for purchase of vehicles and £13,000 issued to Group employees (2004: £11,000 to Group employees).

14. Cash and cash equivalents

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Cash - in UAH	**6**	2
Bank - in UAH	**409**	209
Bank - in foreign currency	**38**	89
	453	300

15. Share capital

	Authorised			
	As at 31 December 2005 '000	As at 31 December 2005 £ '000	As at 31 December 2004 '000	As at 31 December 2004 £ '000
Ordinary shares of 10p each	**50,000**	**5,000**	**30,000**	**3,000**

	Issued and fully paid			
	2005 '000	2005 £ '000	2004 '000	2004 £ '000
Ordinary shares of 10p each				
At beginning of the year	30,000	3,000		
Other issues during the year	11,215	1,121	30,000	3,000
At end of the year	**41,215**	**4,121**	**30,000**	**3,000**

Issue of shares

On 11 February 2005 the common shares of the Company were admitted to the Alternative Investment Market of the London Stock Exchange. The details of the share offering by the Company are provided below:

Number of shares placed with public	11,214,953
Nominal value of a share, (GBP)	0.1
Proceeds from issue of shares, £ '000 including	5,519
Increase in share capital, £ '000	1,121
Share premium, £ '000	4,398

16. Other reserves

	Notes	Share premium £`000	Revaluation reserve £`000	Merger reserve £`000	Share option reserve £`000	Total equity £`000
Balance at 1 January 2004				(1,414)		**(1,414)**
Gain on revaluation of fixed assets			3,073			**3,073**
Deferred income tax on gain on revaluation			(674)			**(674)**
Merger reserve arising an acquisition of Operating Group				(15,288)		**(15,288)**
Net profit for the period						
Depreciation on revaluation of fixed assets			(154)			**(154)**
Elimination of share issued and merger reserve on acquisition of Operating Group				15,288		**15,288**
Exchange differences on translation to the presentation currency			(244)			**(244)**
Balance at 31 December 2004			2,021	(1,414)		**607**
Issue of shares	15	4,398				**4,398**
Fund-raising expenses		(361)				**(361)**
Share based payment		(120)			196	**76**
Exclusion from Group				(12)		**(12)**
Depreciation on revaluation of fixed assets			(108)			**(108)**
Reduction of revaluation reserve			(25)			**(25)**
Decrease of minority Interest			28			**28**
Exchange differences on translation to the presentation currency			336	253		**589**
Balance at 31 December 2005		**3,917**	**2,252**	**(1,173)**	**196**	**5,192**

The reduction in revaluation reserve is due to sale of property, plant and equipment which have previously been revalued. The following describes the nature and purpose of each reserve within owners' equity

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Revaluation	Gains arising on the revaluation of the Group's property (other than investment property). The balance on this reserve is wholly undistributable.
Merger	Losses arising on the application of the pooling of interests method of consolidation used to account for the merger of Ukrproduct Group Ltd and its subsidiaries.
Share option	Amount arising from share based payments (issue of share options).
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Minority interest	Portion of the profit or loss and net assets of the subsidiary attributable to equity interests that are not owned, directly or indirectly through the subsidiaries, by the parent.
Fund-raising expenses	The Group has entered into equity-settled share-based transactions with parties other than employees and has measured the transactions indirectly at the fair value of the instruments granted. This party was WH Ireland who acted as broker of the fund-raising for the Group by placing ordinary shares on the London Stock Exchange, section AIM in February 2005. The fair value of the share-based instruments (warrants) given to the broker as part of consideration was £120,000.
Reduction of the revaluation reserve	Reduction of the revaluation reserve relates to sale of those assets that were previously revalued.

17. Long term loans

Long term loans are repayable in 2008 and consist of £152,408 interest free loan as at 31 December 2005 (£220,642 as at 31 December 2004). The fair value of the interest free loan has been calculated by discounting the cash flows using a 12% (2004: 18%) discount rate.

18. Other long term liabilities

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Bonds	**61**	933
Promissory notes	**6**	5
Less:		
Current portion of long-term liabilities	**(67)**	
		938

In 2003, Agrospetsresursy LLC issued bonds denominated in Hryvna. The bonds bear an interest of 12 % (2004: 18 %) and mature on 8 November 2006. The carrying amounts approximate to fair value.

Promissory notes are denominated in Hryvna and are interest free. Maturity term for promissory notes is due in November 2006.

19. Bank loans and overdrafts

Bank loans include a secured 3-year credit line of up to UAH 40,000,000 from "Raiffeisen Bank Ukraine" denominated in Ukrainian Hryvna (UAH). As at 31 December 2005 an amount of £3, 042,000 was drawn from this credit line. The average interest rate as at December 31, 2005 was 15.5% (2004: 18%). Any excess of UAH 8,000,000 must be repaid on 2 June 2006, with an option to resume the full credit line on the next day. This loan is secured by the assets of OJSC Molochnik.

20. Trade and other payables

	As at 31 December 2005 £`000	As at 31 December 2004 £`000
Trade creditors	**1,966**	1,427
Other creditors	**305**	46
Prepayments	**27**	82
Accruals	**249**	105
VAT and other taxation payable	**59**	11
	2,606	1,617

21. Expenses by nature

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Depreciation (Notes 6 and 7)	**892**	524
Changes in inventories of finished goods and work in progress	**301**	(873)
Raw materials and consumables used	**28,762**	21,298
Employee benefit costs	**3,255**	1,373
Other expenses	**4,798**	2,787
Total cost of goods sold, marketing and distribution costs and administrative expenses	**38,008**	25,109

22. Employee benefit expense

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Wages and salaries	**2,426**	995
Social security costs	**829**	378
	3,255	1,373

Remuneration of key personnel

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Directors - Salaries	**257**	20
Directors - Options	**76**	
Directors - Bonuses	**30**	
	363	20

The Directors are those persons remunerated by the Group who are members of the Board of Directors of the Company (Ukrproduct Group Ltd).

23. Income tax expenses

Income tax comprised the following:

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Current tax charge- Ukraine	**348**	250
Current tax charge- non-Ukraine	**24**	76
Deferred tax relating to the origination and reversal of temporary differences (Note 9)	**(35)**	(25)
Income tax charge for the year	**337**	301

Differences in treatment of certain elements of financial statements by IFRS and Ukrainian statutory taxation regulations give rise to temporary differences. The tax effect of the movement on these temporary differences is recognised at the rate of 25% (2004: 25%).

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Profit before tax - Ukraine	**895**	520
Profit before tax - non-Ukraine	**1,450**	1,237
Tax calculated at domestic tax rates applicable to profits in the relevant countries	**275**	213
Net income not subject to tax and expenses not deductible for tax purposes at weighted average tax rate	**62**	88
Tax charge	**337**	301

The weighted average applicable tax rate was 11.7% (2004: 12.1%). The charge is due to the changes in profitability of the companies comprising the Group in the respective countries.

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

During the period under review, the Ukrainian companies within the Group paid royalties and interest charge on the outstanding credits and bonds to another Group company Linkstar Limited (Cyprus). These payments were not taxable in Ukraine due to the existing Double-Taxation Treaty between Ukraine and Cyprus.

24. 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 in issue. The diluted earnings per share take into account the potential exercise of all options and warrants in existence at the date of this report. The options were granted to the Directors of the Company on 31 January, 2005 and are exercisable until 11 February 2009 at the price of £0.535. The warrants were granted to the Company's Brokers on 31 January 2005 and are exercisable until 31 January 2008 at the price of £0.535

	Year ended 31 December 2005	Year ended 31 December 2004
Net profit attributable to ordinary shareholders, £`000	**2,003**	1,436
Weighted number of ordinary shares in issue	**39,924,465**	30,000,000
Basic earnings per share, pence	**5.0**	4.8
Weighted number WH Ireland warrants	**1,152,974**	
Weighted number Directors option shares	**807,082**	
Diluted average number of shares	**41,884,521**	
Diluted earnings per share, pence	**4.8**	4.8

25. Share-based payment

The Company operates an equity-settled share based remuneration scheme for employees. During the period under review the Company has granted share options to the Directors. All options granted to the Directors expire on February 11, 2009.

	2005 Weighted Average Exercise Price £	2005 Number	2004 Weighted Average Exercise Price £	2004 Number
Outstanding at beginning of the year				
Granted during the year	0.535	998,888		
Forfeited during the year	0.535	86,860		
Exercised during the year				
Lapsed during the year				
Outstanding at the end of the year	0.535	912,028		

The fair value of options granted during the year has been calculated based on the following data.

	2005 £	2004 £
Option pricing model used	Adjusted Black-Scholes	
Weighted average share price at the grant date	0.545	
Exercise price	0.535	
Weighted-average contractual life, years	3.947	
Expected volatility	30%	
Expected dividend yield	5%	
Expected dividend growth rate	0%	
Weighted-average risk-free interest rate	4.44%	

To account for dividend yield in the Black-Scholes model, the modified current stock prices were calculated at option grant dates by subtracting present value of future dividend payments from the actual stock price at those dates.

Dividends were assumed to be paid in two half-yearly instalments.

Expected volatility was approximated by an average historical volatility of the peer group companies. The latter was calculated from daily standard deviations of the peer group stock returns during the last 4 years.

Fair value of the options granted and outstanding at the end of the year was estimated to be £95,336.

An Income Statement remuneration charge of £76,000 was recognised in 2005.

26. Dividends

As at 25 April 2006, the Board of Directors proposed the final dividend payment of 0.5 pence per ordinary share for the year ended 31 December 2005 in the amount of £200,000 which would lead to 0.85 pence per ordinary share for the full year in the amount of £350,000. If approved at the AGM, the final dividend will be paid on 30 June 2006 to the shareholders on the register as at 2 June 2006. No tax consequences for the Group will arise out of this transaction as the Group's parent company is an entity registered under Jersey law.

27. Minority interest

	Year ended 31 December 2005 £`000	Year ended 31 December 2004 £`000
Balance at 1/01/2005	**132**	68
Acquisitions	**65**	
Net profit for the period	**5**	20
Gain on revaluation		75
Depreciation on revaluation of fixed assets		(4)
Decrease of minority interest	**(43)**	
Deferred income tax on revaluation		(16)
Exchange differences on translation to the presentation currency	**30**	(11)
Balance at 31/12/2005	**186**	132

As at 31 December 2005 a minority interest of 2.57% (2004: 4.8%) was held in Molochnik OJSC, and 38% was held in Letichevsky Maslozavod OJSC.

28. Related party transactions

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.

Transactions and balances between the Group companies and related parties are set out below.

Sales of goods and services to related parties and purchases from related parties are summarised below. All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Company.

	Notes	**Year ended 31 December 2005 £`000**	Year ended 31 December 2004 £`000
Sales		**160**	278
Purchases		**146**	374

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

	Notes	**Year ended 31 December 2005 £`000**	Year ended 31 December 2004 £`000
Receivables and prepayments	12	**305**	299
Loans issued	13		201
Trade and other payable	20	**(419)**	(103)
Promissory notes	18	**(6)**	(5)

Trade and other payable include payables to the shareholders of the Company.

29. Currency analysis

Currency analysis for the period ended 31 December 2005 is set out below:

	UAH	USD	RUR	GBP	UR	Total
Non-Current Assets						
Property, Plant and equipment	9,022	12				9,034
Intangible assets	11	392				403
Investments	97					97
Deferred tax	90					90
Goodwill				1,148		1,148
Current assets						
Inventories	4,523					4,523
Loans issued	37					37
Receivables and prepayments	4,056	9	2	1		4,068
Tax debts	321					321
Cash and cash at bank	415	25		13		453
Total assets	**18,572**	**438**	**2**	**1,162**		**20,174**
Non-Current Assets						
Long-term credits	152					152
Deferred tax	837					837
Current Liabilities						
Bank loans and overdrafts	3,042					3,042
Trade and other payable	2,161			368	77	2,606
Current portion of long term liabilities	67					67
Current income tax liabilities	155	1				156
Total liabilities	**6,414**	**1**		**368**	**77**	**6,860**

Currency analysis for the period ended 31 December 2004 is set out below:

	UAH	USD	RUR	Other	Total
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					
Inventories	2,328				2,328
Receivables and prepayments	1,886	136			2,022
Loans issued	11	201			212
Tax debts	6				6
Cash and cash at bank	211	62		27	300
Total assets	**9,576**	**410**		**27**	**10,014**
Liabilities					
Non-Current Assets					
Long-term loans	211				221
Bonds	933				933
Promissory notes	5				5
Deferred tax	703				703
Current Liabilities					
Bank loans and overdrafts	845			232	1,077
Trade and other payables	1,430	54	41	146	1,671
Promissory notes					
Current income tax liabilities	150	96		7	253
Total liabilities	**4,287**	**150**	41	**385**	**4,863**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting ("AGM") of Ukrproduct Group Ltd will be held on Thursday 22 June 2006 at 10.00 am at the offices of CJSC Ukrproduct Group, 14th 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 Consolidated Financial Statements of the Group for the year ended 31 December 2005.

2. To receive and approve the Financial Statements of the Company for the year ended 31 December 2005.

3. To receive and approve the Remuneration Committee Report.

4. To approve the payment of a dividend for the year ended 31 December 2005 of 0.85 pence per ordinary share, including a final dividend of 0.5 pence per share to be paid on 30 June 2006 to shareholders whose names appear on the register of members at the close of business on 2 June 2006.

5. To reappoint BDO Stoy Hayward LLP as auditors to the Company to hold office for the financial year 2006 until the conclusion of the next annual general meeting and to authorise the Directors to determine their remuneration.

Approved by and signed by order of the Board
Authorised Signatory

Bedell Secretaries Limited
Secretary

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

25 April 2006

NOTICES

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 Tuesday 20 June 2006 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.

SHAREHOLDER INFORMATION

Financial Calendar	
31 December 2005	Financial year end
25 April 2006	Announcement of preliminary results
22 June 2006	Annual General Meeting
30 June 2006	Final Dividend Payment
19 September 2006	Announcement of interim results
31 December 2006	Financial year end

Website

The Group operates two corporate websites. The website www.ukrproduct.com contains the corporate information and news; the website www.logistics.ukrproduct.com provides the background information and contact details of the Group's distribution and logistics subsidiary. All Group websites are regularly updated.

Administrative enquiries

All enquiries relating to individual shareholder matters should be made to the registrar at: Capita Registrars Shareholders Services Department, The Registry, 34 Beckenham Road, Beckenham,Kent, BR3 4TU

The registrar will assist with enquiries regarding any change of circumstances (e.g. name, address, bank account details, bereavement, lost certificates, dividend payment and transfer of shares). All correspondence should be clearly marked "Ukrproduct Group Ltd" and quote the full name and address of the registered holder of the shares.

Shareholder information, together with a range of online services for Ukrproduct Group Ltd shareholders is also available on the registrar's website www.capitaregistrars.com.

Share Price

The current share price of Ukrproduct Group Ltd ordinary shares of 10p nominal value can be accessed via the link to DigitalLook on www.digitallook.com/ir/aim:UKR. Alternatively, it may be obtained through the website of the London Stock Exchange www.londonstockexchange.com.

Payment of dividends

As detailed in the Chairman's report it is Ukrproduct Group Ltd's intention to pay a final dividend to all shareholders on the record at 2 June 2006. It is more efficient for shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive future dividends in this way should contact Capita Registrars directly or utilise the online services on the registrar's website.

Investor Relations

For further copies of the annual financial statements or other investor relations enquiries, please contact:

Bedell Secretaries Limited
PO Box 75, 26 New Street, St Helier, Jersey JE2 3RA, Channel Islands
tel: +44 1534 814 876
fax: +44 1534 814 815
e-mail: jean.walsh@bedelltrust.com,
dmitry.dragun@ukrproduct.com

Company registration

Registered Office: 26 New Street, St Helier, Jersey JE2 3RA, Channel Islands
Registered in Jersey with number 88352.

Analysis of Shareholders

Size of Shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	72	51.06%	175,798	0.43%
5,001 to 50,000 shares	49	34.75%	764,706	1.85%
50,001 to 200,000 shares	7	4.97%	836,061	2.03%
Over 200,000 shares	13	9.22%	39,438,388	95.69%
Total	**141**	**100.0%**	**41,214,953**	**100.0%**

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 25 April 2006, 69% of the common shares of the company.

UKRPRODUCT GROUP LTD
26 New Street St Helier Jersey JE2 3RA Channel Islands
www.ukrproduct.com