UKRPRODUCT GROUP LTD

Annual report and Financial statements 2006

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HIGHLIGHTS

January 06	Citing sanitary concerns about the quality of raw milk in Ukraine, Russia imposes the de–facto import ban on the Ukrainian dairy products.
March 06	The Russian import ban triggers massive overcapacity in the Ukrainian domestic production of hard and processed cheeses.
May 06	Due to the effects of the Russian import ban, Group incurs its first monthly loss; cost rationalisation programme commenced.
September 06	Cost rationalisation programme is completed with substantial annualised cost savings.
October 06	New product – smoked sausage cheese – is successfully launched throughout Ukraine.
December 06	New skimmed milk powder (SMP) dryer is installed at Starokonstantiniv Dairy Plant; the Group's SMP capacity is nearly doubled.

CHAIRMAN'S STATEMENT

IN RETROSPECT, 2006 WAS A YEAR OF A FULL-BLOWN CRISIS FOR THE DAIRY INDUSTRY OF UKRAINE. ALTHOUGH THE GROUP WAS ADVERSELY AFFECTED BY THE RUSSIAN IMPORT BAN ON THE UKRAINIAN DAIRY PRODUCTS, WE MANAGED TO PRESERVE OUR CORE OPERATIONS INTACT, TO CUT THE COSTS WHEREVER WE COULD, AND TO BUILD STRONG BASE FOR GROWTH IN THE FUTURE.

Results

In the context of this challenging environment, I am pleased to announce the Group's annual results for 2006. Sales were £35.1 million, down from £39.9 million in the previous year. On a comparable basis, EBITDA is reported at £2.8 million, as against £3.5 million (£2.9 million[1]) in the previous year. Profit before tax was £1.2 million compared to £2.3 million (£1.8 million[1]) in 2005. Significantly, gross profit margin improved to 20.7% from 16.9% in 2005.

As one of Ukraine's leading dairy producers, we are ingrained in the fabric of the country's business environment. As a significant food exporter, we are also dependent on world markets and international politics. Imposed in January 2006, the Russian import ban on Ukrainian dairy products was as much a political decision as it was a turning point for the entire dairy industry of Ukraine. Under huge pricing pressure and a massive transfer of value to the consumers, Ukrproduct Group successfully resisted the industry–wide price reductions. I am delighted to confirm that this strategy has worked well – the Group can report trading results for 2006 that are broadly in line with the pre–crisis results for 2005.

Dividends

The Group is committed to a balanced dividend policy whereby the shareholders are rewarded in line with the trading performance while a balance between reinvesting profits and dividend distributions is maintained. As a result, the Board is recommending a final dividend payment of 0.51 pence per ordinary share for the year ended 31 December 2006 which would lead to 0.61 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 29 June 2007 to shareholders on the register as at 1 June 2007.

Strategy

Ukrproduct Group continued with its strategy of developing and retaining its market position in two core product segments – processed cheese and packaged butter. These will be supplemented soon by hard cheese – a product that we expect will play a key role in expanding the Group's range and in helping to retain and expand the customer base.

The Group's manufacturing capability remains one of the most up–to–date in Ukraine; a significant amount of capital expenditure was dedicated this year to both building the new hard cheese plant and to improving the existing asset base to ensure high quality of the product offering. The largest single asset put into operation in 2006 was the new skimmed milk powder (SMP) production facility – this is a timely addition to the Group's existing SMP capacity in the midst of a very favourable price trend in the world market.

Brands remain the backbone of our business but it is true to say that this year they have had to withstand a number of challenges. Intense price pressure, a glut of substitute products in the market and more discerning consumers have all combined to provide for the most challenging trading environment in years. Under these conditions, the Group's premier brands such as "Our Dairyman" retained their leading market positions and substantially improved margins. We are dedicated to strengthening our core brands, as well as cautiously nurturing new brands in hard cheese.

Our distribution network, as in prior years, played a key role in supporting the Group's sales. While retail chains develop dynamically in Ukraine, the more traditional channels of distribution, such as open–air markets, continue to play a material role in selling the Group's products. Our distribution subsidiaries throughout Ukraine provide valuable services, and supply the Group's executives with quality feedback on most recent developments. We are satisfied with the current distribution arrangements and in the future we shall be making every

[1] In brackets are comparable alternate prior year figures adjusted for the foreign exchange gain on translation differences

effort to make sure that this distribution structure is supported and maintained.

Since becoming a public company in 2005, the Group has undergone a substantial transformation and is now a vertically integrated, pan–Ukrainian operator with a significant asset base and leading domestic market shares in processed cheese and packaged butter. We are also encouraged by our established export operations.

On behalf of the Board, it is with pride and confidence that I congratulate everyone at the Group for their steadfast achievements in what was a very trying business environment last year. Success is built by people and for people – I am extremely confident that the coming years will see the significant results of our joint effort.

Jack Rowell
Chairman

23 April 2007

CHIEF EXECUTIVE'S STATEMENT

IN 2006, UKRPRODUCT GROUP COMBATTED THE ADVERSE CONSEQUENCES OF THE RUSSIAN IMPORT BAN ON UKRAINIAN DAIRY PRODUCTS AND FINISHED THE YEAR WITH GOOD OPERATING PROFIT AND A STRONG BALANCE SHEET. IN AN EXTREMELY CHALLENGING ENVIRONMENT, WE STRENGTHENED THE GROUP'S ASSET BASE, RETAINED ITS MARKET-LEADING POSITIONS AND PRESERVED THE GROUP'S CORE DISTRIBUTION CAPABILITY. BY IMPROVING THE QUALITY OF EARNINGS, WE BELIEVE THAT FOUNDATIONS HAVE BEEN BUILT FOR HEALTHY ORGANIC GROWTH IN THE FUTURE.

Introduction

Much as we are used to the vibrant nature of Ukraine's business environment, 2006 proved exceptionally volatile by any measure. The year started with introduction by the Russian veterinary authorities, of what effectively became an import ban on Ukrainian dairy products. Remaining in force throughout the year, the ban was the year-defining event. It most profoundly affected the Ukrainian manufacturers of hard cheese; in particular, those who traditionally supplied close to 100% of their output to Russia. Suddenly deprived of the long-accustomed access to the Russian market, these manufacturers dramatically increased supply into the Ukraine domestic market resulting in substantially reduced prices for hard cheeses. Although Ukrproduct Group did not produce hard cheese or export to Russia at the time, the indirect effects of significant oversupply were felt by the Group almost immediately. Some of the surplus in hard cheese was re-processed into soft cheese thus flooding the Group's core markets and putting intense price pressure on its entire product range. Product substitution effect also had a negative impact: given the plentiful supply of low-priced (albeit often low-quality) hard cheese, some customers switched from processed cheese in favour of hard cheese.

In their totality, by mid-year all these developments caused a significant deterioration of the business environment for the entire dairy industry in Ukraine. In the first six months of the year, basic product prices remained low and the determination of dairy producers to maintain sales volumes added to pricing pressures. In this situation, Ukrproduct Group, although better positioned than some of its competitors to withstand these pressures, was unable to prevent the first monthly operating loss in its history in May. Moreover, further margin compression resulted in June and July.

As an immediate response to these pressures, a cost rationalisation programme was launched, resulting by September in a significant improvement of the Group's financial position and a leaner cost base. In parallel, as a matter of business principle, the Board adopted a strategy of maintaining margins at the sake of volume sales, in particular, by reducing its presence at open-air markets which traditionally had been a high volume outlet for processed cheese and butter but at margins lower than those achievable in other areas. In the remainder of the year, our strategy proved successful and, despite lower sales volumes for processed cheese, margins and volumes in every other product were maintained. In particular, sales of packaged butter finished the year at a similar volume to the previous year and at better margins. Our emphasis, at all times, on quality found favour with consumers who, encouragingly, appear to be prepared to pay a higher price for a better quality product. Throughout the entire year, sales of skimmed milk powder ("SMP"), our third major product, remained strong although depressed world prices impacted upon margins in the first half. The second half, however, proved reasonably successful as the concurrent droughts in the US and Australia reduced the supply of SMP to the world market and lead to increased prices.

As a result of these developments, the Group's sales of £35.1 million in 2006 were below those of 2005. However, we believe the quality of sales and earnings have been substantially enhanced and, as a consequence of our firm decision to preserve profitability, gross margins have improved at the gross level to 20.7% in 2006 from 16.9% in the previous year.

Overall, it is my firm belief that not only did we finish 2006 in much better financial shape than an overwhelming majority of competitors in Ukraine but we also managed to achieve greater efficiencies throughout the entire business of the Group.

Operating review

In the 2005 Annual Report, we noted "slowing GDP growth and weaker consumer spending" in Ukraine. Subsequently, the economy appeared to gather steam but, by the middle of the year it was clear that food consumption was not going to recover to the levels observed in 2003–2005; consecutive increases in gas and electricity prices and accumulation of mortgage and personal debts combined to put pressure on consumers' food budgets.

Against this background for food consumption, we are pleased with the production and sales of the Group. Production of processed cheese was 12,800 tonnes (2005: 14,700 tonnes) while output of packaged butter remained stable at 9,200 tonnes in both 2006 and 2005. Production of milk powder also increased during the year totalling over 4,000 tonnes (2005: 3,700 tonnes).

During the year, operating developments of the Group continued according to plan.

Notwithstanding the challenging business environment, the capital expenditure programme continued as planned. The majority of expenditure was deployed in the building of a new hard–cheese plant at the site of one of our operating plants, Starkon. The hard–cheese plant is scheduled to become fully operational in May 2007, with trial batches coming off in June and full capacity likely to be achieved by the end of the year. When fully operational, the plant will be producing up to 3,600 tonnes of hard cheese annually. Encouragingly, the trading environment and timing for our entry into the domestic hard cheese market appears very favourable for the Group as small–scale manufacturers are increasingly being put out of business by a combination of high raw milk prices, inadequate product quality and an inability to reach customers efficiently. With our national network, we believe the Group is much better positioned to mitigate these factors and to capitalise on the opportunities that the hard cheese segment offers.
Another important capital expenditure item was the installation, in December 2006, of the new SMP dryer at the Starkon plant. The timing of its installation proved fortunate as, by the end of 2006, world SMP prices recovered. The new SMP dryer has nearly doubled the Group's SMP production capacity and, most importantly, allowed the Group to produce an output of excellent quality with broader customer acceptance. At the beginning of 2007, the new installation was running at full capacity and is expected to provide the Group with further significant sales in 2007.

As in the previous year, the Group's distribution capability was a cornerstone of our performance in 2006. We made selective investments in our distribution subsidiaries which, in turn, provided the guidance and support to the Group's sales team in strengthening relationships with leading retailers. We are seeing the results of our continuing efforts as retailers are keen to retain and support pan–Ukrainian food manufacturers. At this stage of development, the organised retail chains in Ukraine are keenly interested in securing a reliable supply of quality foods to their stores. The directors of the company are aiming for Ukrproduct Group to be a partner of choice for such retailers.

Prospects

The Board believes that the Group's core markets in Ukraine of processed cheese and packaged butter have reached a certain level of maturity. Consumption–only driven growth has moderated and is unlikely to deliver substantial benefits to the Group. The Board is looking for future growth by expanding the Group's market share in traditional products, entering adjacent markets and exploiting opportunities outside of Ukraine. We are keen to pursue all these routes.

Domestically in Ukraine, our market share in processed cheese and packaged butter should remain intact. Although still challenged by low–quality, low–price producers, we are observing a gradual return to more normal trading patterns. Stable quality and predictability of supply from Ukrproduct Group remain the major factors of attraction for emerging retail chains.

Over the years, Ukrproduct Group has paid particular attention to building a *vertically integrated operation* to maintain the stability of sales and profitability, notwithstanding the fluctuations in the operating environment. Our industrial assets are now capable of producing all semi–processed materials required for production of processed cheese and butter; with the launch of the hard–cheese plant we will extend the value–added chain into reprocessing of whey and production of whey powder. Various stages of our value–added process help the Group to remain a balanced dairy producer thus securing the overall stability of business.

Another important aspect of our business is *customer differentiation*. When developing the Group's distribution capability in the years of fast growth, we have always kept in mind various customer segments and distribution channels. Some of these channels, such as independent distributors, have been – and largely remain – reliable partners; their margins are determined by their ability to deliver agreed sales targets with planned margins. Some other channels, such as open–air markets and small shops, have proved more of a challenge from the viewpoint of cost of service and margins. Recognising differences in customer requirements, we have divided our product trademarks among various distribution channels. Such trademarks as "Our Dairyman" and "Kremlin" will only be supplied to the retail distribution channels whereas "People's Product", "Nash CyrOK" and "Divogray" will be channelled through open–air markets. This division allows the Group to cater to different customer audiences and maintain a cost–effective balance between customer value and profitability.

Our *brand portfolio* is another important facet of our business. We believe our brands preserve our sales base and secure profit margins by ensuring customer recognition and delivering a price premium over comparable products. During times of intense price pressure, our brands such as "Our Dairyman" have maintained volumes and the margins. Two new brands will be introduced with the launch of our own hard cheese production in May this year. These brands will be positioned in the quality segment of the market.

Outlook

Following the events of 2006, the executive team intends to put a renewed emphasis on the development of branded quality products for the medium and high-income consumers. For the first time in the Group's history, our major new initiative – the entry into the hard cheese market – will be specifically intended for high-end customers. In our other core segments, we are following a similar approach and are keen to move products upwards both in terms of customer value and price. Our approach is balanced; we are conscious that dairy products are staple food for the majority of the population, thus any upmarket initiative must be based on the strength and recognition of our core brands. Importantly, the upmarket product segments have very high entry barriers as capital expenditure and quality requirements are substantial. Over recent years, we have conducted a substantial modernisation programme of the Group's plants resulting in a solid asset base. We believe that we are well-positioned to capitalise on the growing taste for quality foods among Ukrainian consumers.

On the basis of our expertise in launching new products and building dairy plants, we are currently working on an expansion programme for the next five years.

2006 was a significant test of the Group's ability to progress in a fast-changing, demanding business environment. Our response to this test gives us confidence for the future.

Iryna Yevets
Chief Executive Officer

23 April 2007

FINANCIAL REVIEW

THE MARKET TURMOIL IN 2006 CURTAILED THE EXPECTED GROWTH OF THE BUSINESS AND LIMITED THE POTENTIAL FOR NET PROFIT. NOTWITHSTANDING THIS SETBACK, THE GROUP MAINTAINED OPERATING PROFITS, SIGNIFICANTLY IMPROVED ITS OPERATING CASH FLOW AND STRENGTHENED BALANCE SHEET.

Results

The results of the prior year 2005 benefited from the foreign exchange gain on translation differences of £0.6 million. As a result of the change in accounting estimate (please refer to note 5 to Financial Statements), there is no comparable income in the current year 2006. The comparable figures for EBITDA, PBT and net profit adjusted for this item show the alternate prior year figures to reflect the underlying trading performance of the business.

Sales are reported at £35.1 million compared with £39.9 million for 2005. By segment, processed cheese accounted for 36% of sales or £12.7 million; butter for 33% or £11.6 million and milk powders for 20% or £7.0 million with the balance made up by third–party products and services. EBITDA for the year was £2.8 million versus £3.5 million (£2.9 million[2]) in 2005. Profit before taxes (PBT) was £1.2 million compared to £2.3 million (£1.8 million[2]) with net profit of £1.1 million versus £2.0 million (£1.4 million[2]) in 2005. Gross profit margin increased from 16.9% in 2005 to 20.7% in the year under review.

Profitability was adversely affected by a significant increase in the depreciation charge. In 2006, this amounted to £1.4 million compared to £0.9 million in 2005 and was a reflection of the substantial increase in the Group's asset base.

Product segments

The following table shows the gross and PBT margins for 2005 and 2006.

Product / Year	Cheese		Butter		Milk powders	
	2006	2005	2006	2005	2006	2005
Gross margin, %	24.1	23.3	24.7	14.8	12.3	11.4
PBT margin, %	5.0	9.6	10.1	3.7	9.2	9.5

The gross margin in cheese improved slightly as a result of the executive decision to preserve profitability by restricting the sales volumes. In butter, the dramatic improvement in margins is mostly attributable to a greater production of the own butter with higher margins. In milk powders, the margins essentially remained stable.

Cash flow and capital expenditure

The net cash flow from operating activities during the year was £3.8 million versus a net outflow of £1.2 million in 2005. This reflected a decrease in trade receivables and inventory; the former reflecting the tighter credit terms and the latter, the reduction in the inventory stored due to the improved availability of semi–processed dairy materials. The underlying cash generation of the Group remained strong thus allowing the Group to carry on with the planned capital expenditure of £4.5 million. The main investments were made at the Starkon plant – the installation of the new SMP dryer – and building works and equipment for the hard–cheese plant.

Bank facilities

The Group has a working capital facility of up to £4.5 million provided by Ukraine OTP bank at interest rates fixed in both Hryvna and US Dollar. Overdraft facilities of up to £0.5 million are also available to the Group from various banks in Ukraine. The facility is renewable in May 2008 and has various clauses protecting the Group from the occurrence of unexpected events. Further funding for working capital needs and project finance, if necessary, is available from either the principal bankers or other banking institutions in Ukraine.

[2] In brackets are comparable alternate prior year figures adjusted for the foreign exchange gain on translation differences.

Earnings per share

The basic earnings per share (EPS) in the year were 2.6 pence as compared to 5.0 pence (3.6 pence[2]) in 2005. The basic EPS has been calculated by dividing net profit attributable to ordinary shareholders by the time–weighted average number of shares in issue throughout the year. The diluted earnings per share were 2.6 pence for the year versus 4.8 pence (3.4 pence[2]) in 2005.

Dividends

In view of the Group's positive trading performance and strong cash generation, the Board is recommending a final dividend of 0.51 pence per ordinary share for the year ended 31 December 2006 which would lead to 0.61 pence per ordinary share for the full year (2005: 0.85 pence). If approved at the AGM, the final dividend will be paid on 29 June 2007 to shareholders on the register as at 1 June 2007.

Dmitry Dragun
Chief Financial Officer

23 April 2007

BOARD OF DIRECTORS AND CORPORATE ADVISERS

From left to right:

Sergey Evlanchik
Iryna Yevets
Dr Jack Rowell
Dr Dmitry Dragun
Alexander Slipchuk

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

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.

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 CFO of the Group. Dmitry holds PhD degree in International Finance and 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.

Sergey Evlanchik
Executive Director
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.

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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 2006.

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 milk powders. The Group is one of the largest branded food producers in Ukraine with its own nationwide distribution network. More detailed commentary on the Group's activities during the year, its financial performance, future plans, and prospects are outlined in the Chairman's and Chief Executive's Statements and in the Financial Review.

Directors and Directors' interests

The names and brief biographical details of the current Directors are provided on page 9. David Lattimore resigned as a Director on 7 October 2006. Details of the Directors' remuneration are set out in the Remuneration Committee Report.

	Shares		Share options	
	2005	2006	2005	2006
Executive				
Sergey Evlanchik	15,000,000	14,872,383	–	–
Iryna Yevets	–	–	434,299	434,299
Alexander Slipchuk	15,000,000	14,737,383	–	–
Dr Dmitry Dragun	–	–	217,149	217,149
Non-executive				
Dr Jack Rowell	18,690	18,690	86,860	130,290
David Lattimore	–	10,000	86,860	130,290

The interest of the Directors in the share capital of the Company and the share options granted is shown in the following table.

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

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	2,007,000	4.9%
The Bank of New York (Nominees) Limited	1,508,500	3.7%
HSBC Global Custody Nominee (UK)	1,241,532	3.0%
Euroclear Nominees Limited	1,200,000	2.9%
Fitel Nominees Limited (in custody for Crensel Finance Limited and Densim Group Management SA)	1,135,000	2.7%
Vidacos Nominees Limited	581,000	1.4%
Pershing Keen Nominees Limited	394,925	0.9%

As at 20 April 2007, the Company has been notified of the following substantial interests in its issued ordinary share capital (the ten largest shareholders are reported):

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, subject to a satisfactory fee arrangement and a three–year review of independence, to reappoint BDO Stoy Hayward LLP as auditors to the Group for the financial year 2007 at the AGM on 21 June 2007.

All of the current Directors have taken the necessary steps to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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.

The directors have elected to prepare the financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs).

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.

Financial statements are available on the Group's website in accordance with the applicable legislation governing the preparation and dissemination of financial statements. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Approved by and signed by order of the Board

Authorised Signatory

Bedell Secretaries Limited

Secretary

20 April 2007

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 one non–executive and four Executive Directors. The biographical details of the Directors are shown on page 9. 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.

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 one non–executive Director. The member of the Audit Committee has 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, Jack Rowell

The Remuneration Committee comprises one non–executive Director. 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 the annual report, 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 listed 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 country the Group operates in, 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.

ENVIRONMENTAL COMPLIANCE REPORT

Environment

The Group recognises the importance of good environmental practices and seeks to minimise a negative impact that its operations or products might have on the production sites and surrounding areas. The Group complies with the environmental laws and regulations of Ukraine and promotes the effective resource management, energy conservation and waste efficiency internally and in dealings with the third parties. The Group's modernisation programme of 2005–2008 puts specific emphasis on acquiring and installing only the most advanced and environmentally–friendly production and auxiliary equipment.

Food safety

At the time of writing of this Report, the Group's Starkon Plant was in the process of accreditation to ISO 22000 *Food safety management systems – Requirements for any organisation in the food chain*, an international standard published in 2005 to ensure safety of the food supply chains worldwide.

Community support

The Group is keen to develop and maintain partnership relationships with the communities by means of supporting the 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 one non–executive Director and is chaired by Jack Rowell. This Committee is scheduled to meet at least twice per annum. The objective of the Committee is to advise the Board on the Group's overall remuneration policy and to determine the terms of employment and total remuneration of the Executive Directors and certain senior employees, including the granting of share options. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

Remuneration Policy

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

- are designed to attract, motivate and retain high calibre Executives;
- are competitive and in line with comparable businesses;
- are rooted in practices exercised in countries where the Group operates;
- 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		Total cash remuneration	
	2005	2006	2005	2006	2005	2006	2005	2006
Executive								
Sergey Evlanchik	60,000	45,000	56,667	44,500	–	–	56,667	44,500
Iryna Yevets	50,000	60,000	46,667	46,833	–	–	46,667	46,833
Alexander Slipchuk	45,000	45,000	45,000	38,250	–	–	45,000	38,250
Dr Dmitry Dragun	40,000	40,000	38,333	34,000	30,000	30,000	68,333	64,000
Non-executive								
Dr Jack Rowell	30,000	37,500	30,000	31,875	–	–	30,000	31,875
David Lattimore	25,000	30,000	25,000	24,065	–	–	25,000	24,065

Share based payments

In 2005 the company 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	57.0	to 11/02/2009
Dr Dmitry Dragun	217,149	57.0	to 11/02/2009
Jack Rowell	130,290	57.0	to 11/02/2009
David Lattimore	130,290	57.0	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, 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group 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) 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 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, of the state of the Group's affairs as at December 31, 2006 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.

- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

8 Baker Street, London

23 April, 2007

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2006 £ '000	As at 31 December 2005 (restated) £ '000
Assets			
Non-Current Assets			
Property, Plant and equipment	8	10,865	9,528
Intangible assets	9	1,237	1,333
Financial assets	10,11	244	97
Deferred tax assets	12	42	90
Total non-current assets		**12,388**	**11,048**
Current assets			
Inventories	13	2,650	4,523
Trade and other receivables	14	3,710	4,012
Other financial assets	15	116	358
Cash and cash equivalents	16	159	453
Total Current assets		**6,635**	**9,346**
Total assets		**19,023**	**20,394**
Equity and liabilities			
Equity attributable to equity holders			
Share capital	17	4,121	4,121
Other reserves	19	4,181	5,200
Retained earnings		4,141	3,815
Total equity attributable to equity holders of the parent		**12,443**	**13,136**
Minority interest	30	199	246
Total equity		**12,642**	**13,382**
Liabilities			
Non-Current Liabilities			
Long–term loans	10,20	102	152
Deferred tax liabilities	12	767	989
Total Non-Current Liabilities		**869**	**1,141**
Current Liabilities			
Bank loans and overdrafts	22	3,146	3,042
Trade and other payables	23	1,953	2,606
Current portion of long term liabilities	21	389	67
Current income tax liabilities		24	156
Total Current Liabilities		**5,512**	**5,871**
Total equity and liabilities		**19,023**	**20,394**

These financial statements were approved and authorised for issue by the Board of Directors on April 20, 2007.

The notes on pages 24 to 51 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2006 £ '000	Year ended 31 December 2005 (restated) £ '000
Revenue	7	**35,053**	**39,962**
Cost of Sales		**(27,805)**	**(33,194)**
Gross profit		**7,248**	**6,768**
Other operating income		–	594
Administrative expenses		(2,720)	(2,167)
Selling and distribution expenses		(2,616)	(2,084)
Other operating expenses		(477)	(563)
Profit from operations		**1,435**	**2,548**
Finance income		–	41
Finance expense		(237)	(244)
Profit before taxation		**1,198**	**2,345**
Income tax expense		(119)	(337)
Profit for the year		**1,079**	**2,008**
Attributable to:			
Equity holders		1,095	2,003
Minority interest		(16)	5
		1,079	**2,008**
Earnings per share:			
Basic	27	2.6	5.0
Diluted	27	2.6	4.8

The notes on pages 24 to 51 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2006 £ '000	Year ended 31 December 2005 (restated) £ '000
Cash flows from operating activities			
Profit before taxation		**1,198**	**2,345**
Adjustments for:			
Exchange difference		20	(594)
Depreciation and amortisation	8,9	1,359	897
Loss on disposal of non–current assets		16	–
Interest expense		237	244
Interest income		–	(41)
Share based payments	28	19	76
(Increase) / decrease in inventories		1,396	(1,507)
(Increase) / decrease in trade and other receivables		159	(1,026)
(Decrease) in trade and other payables		(577)	(990)
Cash (used by)/generated from operations		**3,827**	**(596)**
Interest paid		(237)	(244)
Interest received		–	41
Income tax paid/(refunded)		259	(384)
Net cash (used in)/generated by operating activities		**3,849**	**(1,183)**
Cash flows from investing activities			
Payments for property, plant and equipment		(4,551)	(3,480)
Acquisition of subsidiaries (net of cash acquired)		(169)	(1,283)
Proceeds from sale of property, plant and equipment		35	–
Proceeds from sale of investments		–	–
Net cash used in investing activities		**(4,685)**	**(4,763)**
Cash flows from financing activities			
Proceeds/(repayments) from long term borrowing		(34)	(99)
Proceeds / (repayments) from issue of bonds		357	(964)
Proceeds from issue of shares		–	5,158
Cash paid on liquidation of Ukrproduct Group plc		–	(12)
Dividends paid	29	(247)	(148)
Net proceeds from short term borrowing		511	1,656
Loans repaid / (issued)		25	197
Net cash generated by/(used in) financing activities		**612**	**5,788**
Net increase/(decrease) in cash and cash equivalents		**(224)**	**(158)**
Effect of exchange rate changes and restatements on cash and cash equivalents		(70)	311
Cash and cash equivalents at the beginning of the year	16	**453**	**300**
Cash and cash equivalents at the end of the year	16	**159**	**453**

The notes on pages 24 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Attributable to equity holders				
		Share capital £'000	Other reserves £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2005		**3,000**	**607**	**1,412**	**132**	**5,151**
Acquisitions		–	–	–	118	118
Depreciation on revaluation of non–current assets		–	(108)	108	–	–
Reduction of revaluation reserve		–	(25)	25	–	–
Decrease of minority interest		–	28	15	(43)	–
Exchange differences on translation to the presentation currency		–	597	400	34	1,031
Net income (expense) recognised directly in equity		–	**492**	**548**	**109**	**1,149**
Profit for the year		–	–	2,003	5	2,008
Total recognised income and expense		–	**492**	**2,551**	**114**	**3,157**
Dividends paid		–	–	(148)	–	(148)
Issue of shares		1,121	4,398	–	–	5,519
Fund–raising expenses		–	(361)	–	–	(361)
Share based payments		–	76	–	–	76
Exclusion from Group		–	(12)	–	–	(12)
Balance at 31 December 2005 (restated)		**4,121**	**5,200**	**3,815**	**246**	**13,382**
Depreciation on revaluation of non–Current Assets		–	(135)	137	–	2
Reduction of revaluation reserve		–	(4)	–	–	(4)
Decrease of minority Interest		–	2	(2)	(2)	(2)
Exchange differences on translation to the presentation currency		–	(900)	(665)	(29)	(1,594)
Net income (expense) recognised directly in equity		–	**(1,037)**	**(530)**	**(31)**	**(1,598)**
Profit for the year		–	–	1,095	(16)	1,079
Total recognised income and expense			**(1,037)**	**565**	**(47)**	**(519)**
Dividends paid	29	–	–	(247)	–	(247)
Issue of shares		–	–	–	–	–
Share based payments	28	–	19	–	–	19
Exclusion from Group		–	(1)	8	–	7
Balance at 31 December 2006		**4,121**	**4,181**	**4,141**	**199**	**12,642**

The notes on pages 24 to 51 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Group and Principal Activities

The Company is a public limited liability entity registered in Jersey with a 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 that currently employs almost 450 employees and makes use of around 200 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, those companies collaborate with international traders and partners to export skimmed milk powder and other products to Germany, Denmark, Holland, Japan, 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 2006 was 2,372 (2005 – 1,805).

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 Hryvna ("UAH"). The Hryvna has also been adopted as the functional currency for the purpose of the consolidated financial statements (see note 3e). Since the Ukrainian Hryvna is not a major convertible or recognisable currency outside of Ukraine, the financial information has been translated into British pounds sterling (hereinafter GBP or £) at the rates given in note 3(q), as the Group's presentational currency. 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 amendments to published standards and interpretations to existing standards effective in 2006 were adopted by the Group.

- *IAS 19 (Amendment), Employee Benefits* (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. As the Group does not have actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment does not require additional disclosure.

– *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets ('the asset'); and (b) the arrangement conveys a right to use the asset. Management assessed the impact of IFRIC 4 on the group's operations by reviewing all the existing arrangements. There was no impact of the adoption of IFRIC 4 on the results or net assets of the group.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the identification of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of the financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group applied this amendment from 1 January 2006, which has no impact on the results or net assets of the group.

– *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. There was no impact on adoption of this amendment.

The following Standards, interpretations and amendments to published standards effective in 2006 were not relevant to the Group.

– *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-group Transactions* (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intra-group transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2006.

– *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS nor does it carry out exploration for and evaluation of mineral resources.

– *IFRS 6, Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.

– *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

– *IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

The following Standards, interpretations and amendments to published standards were not yet effective in 2006.

– *IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 January 2007.

– *IFRS 8, Operating Segments* (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The group will apply this standard in the accounting period beginning on 1 January 2009 and the application will not result in any impact on the results or net assets of the group.

– IAS 23 Borrowing Costs (revised) (effective from 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.

– *IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the group as none of the group companies has a currency of hyperinflationary economy as its functional currency.

– *IFRIC 8, Scope of IFRS2* (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving issuance of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to the situations where the identifiable consideration received is less than the fair value of the equity instruments issued. Management is currently assessing the impact of IFRIC 8 on the accounts.

– *IFRIC 9, Reassessment of embedded derivatives* (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires the entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Management is currently assessing the impact of IFRIC 9 on the accounts.

– *IFRIC 10, Interim Financial Reporting and Impairment* (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the group's accounts.

– *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007). Share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). Management is currently assessing the impact of IFRIC 11 on the accounts.

– *IFRIC 12, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group operations due to absence of such arrangements.

(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 later 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 million 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 at paragraphs 10 to 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This requires, inter alia, that where IFRS doesn't 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 regards, 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 operations 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 operations for the period prior to the acquisition of the controlling interest, meaning 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 combination 2006	Method of combination 2005
Molochnik OJSC**	Ukraine	97.6%	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
Togoviy Dom Maslayana SC*	Ukraine	100%	Acquisition method	Acquisition method
Togoviy 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 (solvently liquidated in 2006)	Ukraine	100%	n/a	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	Acquisition method
Jmerinsky Maslosyrzavod LLC**	Ukraine	62.2%	Acquisition method	Acquisition method
Letichevsky Maslozavod OJSC**	Ukraine	100%	Acquisition method	Acquisition method
LinkStar Limited	Cyprus	100%	Merger method	Merger method
Dairy Trading Corporation Limited	BVI	100%	Merger method	Merger method
Ukrproduct Group LTD	Jersey		Parent	Parent

* Subsidiaries of Agrospetsresursy LLC, the Operating Group's specialised distribution companies.
** The companies are held through Ukrproduct Group CJSC which is a 100%-owned subsidiary of the Company

(d) Critical accounting estimates and judgments

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

– Impairment of goodwill. The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

–Useful lives of intangible assets and property, plant and equipment. Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long live assets, changes to the estimates used can result in significant variations in the carrying value.

– Fair value of financial instruments. The group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

– Inventory. The Group reviews the net realisable value of and demand for its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, supplier prices and economic trends.

– Income taxes. The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

– Share based payment. The Group has the equity-based option schemes for the executive and non-executive directors. Fair value of the share options is estimated by using valuation models, such as Black-Scholes and binominal lattice, on the date of grant based on certain assumptions, such as the expected volatility, expected life of the options and dividend growth rate.

– Legal proceedings. In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the group's management as to how it will respond to the litigation, claim or assessment.

(e) 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 the average rate for the year.

(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.

(III) all exchange differences resulting from the application of the translation methods described above are recognised directly in equity as a separate component of equity (IAS 21.39 (c))

Actual exchange rates applied in the translation are detailed in Note 3(q) below.

(f) 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 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.

(g) 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 at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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.

(h) 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.

(i) 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) using the straight-line method. 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). The amortisation expense is included within Selling & Distribution expenses in the Income Statement.

Customer list is shown at fair value at the date of revaluation obtained by using the estimates of the independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the customer list over its estimated useful lives (20 years). The amortisation expense is included within Other expenses in the Income Statement.

(j) 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 the carrying value of goodwill related to the subsidiary sold.

(k) 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 amortisation 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. 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 a 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 Changes in Equity.

(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) 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.

(n) 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.

(o) 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.

(p) 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 difference 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.

(q) 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 the average rate for the year. Assets and liabilities items have been converted to British Pounds (£) for presentation purposes at the closing rate. The resulting exchange differences are 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, 2006	9.9045	5.0500
Official rate as at December 31, 2005	8.6759	5.0500
Weighted average rate for 2006	9.3128	5.0500
Weighted average rate for 2005	9.3129	5.0500

(r) Pension costs

The Group contributes to the Ukrainian mandatory 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.

(s) Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship (see below), the group’s accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only in–the–money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. The group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method less any provision for impairment.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost using the effective interest method, with changes through the income statement.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques.

(t) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Bank borrowings, certain preference shares and the debt element of convertible debt issued by the group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(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 tight control of 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. At 31 December 2006, all borrowings were at fixed rates.

5. Change in accounting estimates

Effective from 1 January 2006, the Group changed the accounting estimate of the intra-group loans. In the previously reported periods, such loans gave rise to the currency exchange differences that were recorded in Income Statement. From 1 January 2006, the intra-group loans are accounted for as investments in the Ukrainian subsidiaries and reflected in the equity reserves. Had the estimate been changed on 1 January 2005, the net income for year 2005 would have been £1,438,000. The impact on the current year 2006 was an exchange loss of £283,000.

6. Prior year adjustment

In November 2005, the Group acquired Letichiv and Jhmerinka plants. IFRS 3 requires the Purchase Price Allocation (PPA) exercise to be performed within 12 months from the date of acquisition. Such exercise was performed by an independent valuer Uvecon within the period of twelve months from the date of acquisition. The corresponding Adjustment to reflect the effects of the PPA exercise on Balance

Sheet as at 31 December 2005 was made in the accounts. There was no material effect of the prior year adjustment on Income Statement and Cash Flow Statement.

	2005 (as previously reported) £ '000	Adjustment £ '000	2005 (restated) £'000
Assets			
Non-Current Assets			
Property, Plant and equipment	9,034	494	9,528
Intangible assets	1,551	(218)	1,333
Investments	97		97
Deferred tax assets	90		90
Total non-current assets	**10,772**		**11,048**
Current assets			
Inventories	4,523		4,523
Trade and other receivables	4,068	(56)	4,012
Other Financial Assets	358		358
Cash and cash at bank	453		453
Total Current assets	**9,402**		**9,346**
Total assets	**20,174**		**20,394**
Equity capital and reserves attributable to equity holders			
Share capital	4,121		4,121
Other reserves	5,192	8	5,200
Retained earnings	3,815		3,815
Minority interest	186	60	246
Total equity	**13,314**		**13,382**
Liabilities			
Non-Current Liabilities			
Long–term loans	152		152
Deferred tax liabilities	837	152	989
Total Non-Current Liabilities	**989**		**1,141**
Current Liabilities			
Bank loans and overdrafts	3,042		3,042
Trade and other payable	2,606		2,606
Current portion of long term liabilities	67		67
Current income tax liabilities	156		156
Total Current Liabilities	**5,871**		**5,871**
Total equity and liabilities	**20,174**		**20,394**

	2005 (as previously reported) £ '000	Adjustment £ '000	2005 (restated) £ '000
Revenue	**39,962**		**39,962**
Cost of Sales	**(33,194)**		**(33,194)**
Gross profit	**6,768**		**6,768**
Other operating income	594		594
Administrative expenses	(2,167)		(2,167)
Selling and distribution expenses	(2,084)		(2,084)
Other operating expenses	(563)		(563)
Profit from operations	**2,548**		**2,548**
Finance income	41		41
Finance expense	(244)		(244)
Profit before taxation	**2,345**		**2,345**
Income tax expense	(337)		(337)
Profit for the year	**2,008**		**2,008**
Attributable to:			
Equity holders	2,003		2,003
Minority interest	5		5
	2,008		**2,008**
Earnings per share:			
Basic	5.0		5.0
Diluted	4.8		4.8

7. Segment information

At 31 December 2006, the Group was organised on a worldwide basis into three main business segments:

(1) Cheese;

(2) Butter; and

(3) Milk powders

The segment results for the year ended 31 December 2006 are as follows:

£'000	Cheese	Butter	Milk powders	Total dairy	Services	Other	Un–allocated	Total
Sales, Total	**33,399**	**40,206**	**16,572**	**90,177**	**3,625**	**6,196**	–	**99,998**
Sales to internal customers	20,655	28,550	9,536	58,741	2,734	3,470	–	64,945
Sales to external customers	12,744	11,656	7,036	31,436	891	2,726	–	35,053
Gross profit	**3,075**	**2,878**	**866**	**6,819**	**171**	**258**	–	**7,248**
Administrative expenses	(1,088)	(796)	(189)	(2,073)	(40)	–	(607)	(2,720)
Selling and distribution expenses	(1,347)	(909)	(32)	(2,288)	(45)	–	(283)	(2,616)
Other operating income / expenses	–	–	–	–	–	–	(457)	(457)
Profit before interest and taxation	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,347)**	**1,455**
Income / loss from exchange differences	–	–	–	–	–	–	(20)	(20)
Interest expenses	–	–	–	–	–	–	(237)	(237)
Interest income	–	–	–	–	–	–	–	–
Profit before taxation	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,604)**	**1,198**
Taxation	–	–	–	–	–	–	(119)	(119)
Profit for the year	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,723)**	**1,079**
Segment assets	9,237	4,627	2,549	16,413	198	807	–	17,418
Unallocated corporate assets	–	–	–	–	–	–	1,563	1,563
Unallocated deferred tax	–	–	–	–	–	–	42	42
Consolidated total assets	**9,237**	**4,627**	**2,549**	**16,413**	**198**	**807**	**1,605**	**19,023**
Segment Liabilities	584	565	208	1,357	57	349	–	1,763
Unallocated corporate liabilities	–	–	–	–	–	–	3,851	3,851
Unallocated deferred tax	–	–	–	–	–	–	767	767
Consolidated total liabilities	**584**	**565**	**208**	**1,357**	**57**	**349**	**4,618**	**6,381**
Other segment information:								
Depreciation and amortisation	775	351	131	1,257	34	–	68	**1,359**
Capital expenditure	2,259	480	1,293	4,032	36	–	28	**4,096**

The basis of pricing of the inter–segment transfers is the current market price at which the goods could be bought on the spot market externally but not lower than the full production costs plus the accompanying transport expenses.

The segment results (restated) for the year ended 31 December 2005 were as follows:

£'000	Cheese	Butter	Milk powders	Total dairy	Services	Other	Unallocated	Total
Sales, Total	**42,798**	**36,368**	**14,287**	**93,453**	**3,472**	**5,094**	–	**102,019**
Sales to internal customers	26,547	24,994	5,772	57,313	2,845	1,899	–	62,057
Sales to external customers	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)	–	(428)	(2,167)
Selling and distribution expenses	(1,256)	(673)	(18)	(1,947)	(31)	–	(106)	(2,084)
Other operating income / expenses	–	–	–	–	–	–	(563)	(563)
Profit before interest and taxation	**1,572**	**417**	**806**	**2,795**	**53**	**203**	**(1,097)**	**1,954**
Income / loss from exchange differences	–	–	–	–	–	–	594	594
Interest expenses	–	–	–	–	–	–	(244)	(244)
Interest income	–	–	–	–	–	–	41	41
Profit before taxation	**1,572**	**417**	**806**	**2,795**	**53**	**203**	**(706)**	**2,345**
Taxation	–	–	–	–	–	–	(337)	(337)
Profit for the year	**1,572**	**417**	**806**	**2,795**	**53**	**203**	**(1,043)**	**2,008**
Segment assets	10,227	5,164	1,663	**17,054**	243	847	–	18,144
Unallocated corporate assets	–	–	–	–	–	–	2,160	**2,160**
Unallocated deferred tax	–	–	–	–	–	–	90	**90**
Consolidated total assets	**10,227**	**5,164**	**1,663**	**17,054**	**243**	**847**	**2,250**	**20,394**
Segment Liabilities	904	589	162	**1,655**	54	379	–	**2,088**
Unallocated corporate liabilities	–	–	–	–	–	–	3 935	**3,935**
Unallocated deferred tax	–	–	–	–	–	–	989	**989**
Consolidated total liabilities	**904**	**589**	**162**	**1,655**	**54**	**379**	**4,924**	**7,012**
Other segment information:								
Depreciation and amortisation	525	241	89	855	13	–	29	**897**
Capital expenditure	2,593	686	240	3,519	45	4	29	**3,597**

Secondary reporting format – geographical segments:

Sales by country	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Ukraine	28,459	33,689
Russia	20	1,376
Belarus	233	–
Kazakhstan	202	–
Georgia	110	–
Uzbekistan	126	–
Azerbaijan	339	293
Armenia	20	–
Bulgaria	631	431
Poland	–	184
Holland	332	479
Algeria	122	–
Denmark	1,623	669
Germany	683	2,179
Other countries	2,153	662
Total	**35,053**	**39,962**

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.

8. Property, plant and equipment

	Assets under Construction £ '000	Land and Buildings £ '000	Plant and Machinery £ '000	Vehicles and equipment £ '000	Total £ '000
Cost or valuation					
Opening balance at 1 January 2006	**1,014**	**6,339**	**3,666**	**3,123**	**14,142**
Additions/ transfers from AUC	5,477	514	2,158	819	**8,968**
Disposals	(3,400)	(26)	(1,290)	(436)	**(5,152)**
Exchange differences on translation to the presentation currency	(250)	(815)	(507)	(410)	**(1,982)**
Closing balance	**2,841**	**6,012**	**4,027**	**3,096**	**15,976**
Accumulated depreciation					
Opening balance at 1 January 2006	–	**1,989**	**1,218**	**1,408**	**4,615**
Depreciation charge	–	218	475	602	**1,295**
Disposals	–	(19)	(26)	(112)	**(157)**
Exchange differences on translation to the presentation currency	–	(259)	(178)	(205)	**(642)**
Closing balance	–	**1,929**	**1,489**	**1,693**	**5,111**
Net book amount at 31 December 2006	**2,841**	**4,083**	**2,538**	**1,403**	**10,865**
Cost or valuation					
Opening balance at 1 January 2005	**992**	**3,941**	**1,365**	**1,138**	**7,436**
Acquisition	3	358	700	458	**1,519**
Additions/ transfers from AUC	3,257	1,219	1,210	1,312	**6,998**
Disposals	(3,401)	(14)	(53)	(148)	**(3,616)**
Exchange differences on translation to the presentation currency	163	835	444	363	**1,805**
Closing balance	**1,014**	**6,339**	**3,666**	**3,123**	**14,142**
Accumulated depreciation					
Opening balance at 1 January 2005	–	**1,447**	**552**	**415**	**2,414**
Acquisition	–	139	305	334	**778**
Depreciation charge	–	113	219	537	**869**
Disposals	–	(6)	21	44	**59**
Exchange differences on translation to the presentation currency	–	296	121	77	**494**
Closing balance	–	**1,989**	**1,218**	**1,407**	**4,614**
Net book amount at 31 December 2005 (restated)	**1,014**	**4,350**	**2,448**	**1,716**	**9,528**

Fixed assets with a net book value of £5,680,555 as at 31 December 2006 (£4,453,000 at 31 December 2005) 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.

9. Intangible assets

	Computer software £ '000	Trade–marks £ '000	Customer list £ '000	Goodwill £'000	Total £ '000
Cost or valuation					
At 1 January 2006	**20**	**411**	**752**	**184**	**1,367**
Additions	8	–	–	–	**8**
Exchange differences on translation to the presentation currency	(3)	(42)	–	–	**(45)**
At 31 December 2006	**25**	**369**	**752**	**184**	**1,330**
Accumulated amortisation					
At 1 January 2006	**9**	**19**	**6**	–	**34**
Amortisation charge for the year	7	19	38	–	64
Exchange differences on translation to the presentation currency	(2)	(3)	–	–	(5)
At 31 December 2006	**14**	**35**	**44**	–	**93**
Net book amount at 31 December 2006	**11**	**334**	**708**	**184**	**1,237**
Cost or valuation					
At 1 January 2005	**7**	–	–	–	**7**
Acquisition	–	–	701	171	**872**
Additions	11	383	–	–	**394**
Disposals	(1)	–	–	–	**(1)**
Exchange differences on translation to the presentation currency	3	28	51	13	**95**
At 31 December 2005	**20**	**411**	**752**	**184**	**1,367**
Accumulated amortisation					
At 1 January 2005	**5**	–	–	–	**5**
Acquisition	–	–	–	–	–
Amortisation charge for the year	5	18	5	–	**28**
Disposals	(2)	–	–	–	**(2)**
Exchange differences on translation to the presentation currency	1	1	1	–	**3**
At 31 December 2005	**9**	**19**	**6**	–	**34**
Net book amount at 31 December 2005 (restated)	**11**	**392**	**746**	**184**	**1,333**

The split of the goodwill remaining after Purchase Price Allocation (PPA) exercise as at 31 October 2005 between Letichevsky Maslozavod OJSC and Jmerinsky Maslosyrzavod LLC plants is as follows.

	2005 as previously reported £ '000	Adjustment to reflect PPA exercise £ '000	2005 (adjusted) £ '000
Letichevsky Maslozavod OJSC	340	(156)	184
Jmerinsky Maslosyrzavod LLC	817	(817)	–
Total goodwill	**1,157**	**(973)**	**184**

The PPA adjustments made to the book value of assets are shown in the following table.

	2005 as previously reported £'000		Adjustment to reflect PPA exercise £ '000	2005 (adjusted) £'000
	Letichevskiy Maslozavod OJSC	Jmerinskiy Maslosyrzavod LLC		
Non-current assets				
Property, plant and equipment	122	234	482	838
Customer list			752	752
Current assets				
Cash and cash at bank	1	17		18
Inventories	16	151		167
Receivables and prepayments	519	369	(54)	834
Total assets	**658**	**771**	**1180**	**2609**
Trade and other payable	478	740		1218
Defferred tax			149	149
Net assets	**180**	**31**	**1031**	**1242**
Minority interest	68		58	126
Net assets acquired	**112**	**31**	**973**	**1116**
Acquisition price	452	848		1300
Goodwill	**340**	**817**	**(973)**	**184**

Upon carrying out an impairment review for the carrying amount of the goodwill, no goodwill write–off was recorded. As the entire amount of the carrying value of the goodwill after the PPA exercise is attributed to Letichevsky Maslozavod OJSC, the key assumptions on which the management based the cash flow projections from the plant were, firstly, the continuing value from the plant is securing the milk supply zone from the competitive milk collectors (the "physical presence competitive defense assumption") and, secondly, a cluster of the continuing relevant dairy expertise that existed on the plant ("relevant dairy expertise assumption"). In the opinion of the management, the values assigned to each of the two key assumptions were as follows: £100,000 – to physical presence competitive defense assumption and £84,000 – to relevant expertise assumption. The period over which the cash flows were assessed to each assumption was under five years although it is the management's view that the assumption might be relevant even after this term. The discount rate applied to the projections was 12%.

The intangible asset "Customer list" represents the captive individual suppliers of raw milk in the vicinity of Letichevsky Maslozavod OJSC and Jmerinsky Maslosyrzavod LLC. In Ukraine, where about 80% of the entire milk comes from the individual producers, the existing supplier base is very important for the dairy producers and thus is valuable. The acquired asset "Customer list" was recognised in the accounts on the basis of the Purchase Price Allocation (PPA) exercise conducted within the 12–month period following the acquisitions of two plants. The asset was valued by an independent valuer Uvecon using the sales comparison method and depreciated replacement cost (DRC) methods (for tangible assets) and income and cost advantage methods (intangible assets).

10. Financial assets and liabilities – Numerical information

Maturity of financial liabilities

The carrying amounts of financial liabilities, all of which are exposed to cash flow or fair value interest rate risk, are repayable as follows:

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
In less than 1 year	**2,727**	2,187
In more than one year but not more than two years	**910**	–
In more than two years but not more than five years	–	1,074
In more than five years	–	–
	3,637	**3,261**

Borrowing facilities

The group has borrowing facilities available at 31 December 2006 in which all conditions have been met.

	Floating rate £ '000	Fixed rate £ '000	Total as at 31 December 2006 £ '000	Total as at 31 December 2005 £ '000
Expiry within 1 year	**22**	**2,705**	**2,727**	**2,187**
Expiry within 1 and 2 years	–	**910**	**910**	–
Expiry in more than 2 years	–	–	–	**1,074**
	22	**3,615**	**3,637**	**3,261**

Interest rate risk

The currency and interest profile of the Group's financial assets are as follows:

	Floating rate assets £ '000	Fixed rate assets £ '000	Total as at 31 December 2006 £ '000	Total as at 31 December 2005 £ '000
UAH	–	**244**	244	97
USD	–	–	–	–
EUR	–	–	–	–
	–	**244**	**244**	**97**

The currency and interest profile of the Group's financial liabilities are as follows:

	Floating rate liabilities £ '000	Fixed rate liabilities £ '000	Total as at 31 December 2006 £ '000	Total as at 31 December 2005 £ '000
UAH	**22**	**3,579**	**3,601**	3,261
USD	–	**36**	**36**	–
EUR	–	–	–	–
	22	**3,615**	**3,637**	**3,261**

Fair values

The book value and fair value of financial assets are as follows:

	Book value as at 31 December 2006 £ '000	Fair value as at 31 December 2006 £ '000	Book value as at 31 December 2005 £ '000	Fair value as at 31 December 2005 £'000
Other investments	**244**	**244**	97	97
	244	**244**	**97**	**97**

The book value and fair value of financial liabilities are as follows:

	Book value as at 31 December 2006 £ '000	Fair value as at 31 December 2006 £ '000	Book value as at 31 December 2005 £ '000	Fair value as at 31 December 2005 £ '000
Bank loans	**3,124**	**3,124**	3,042	3,042
Bank overdrafts	**22**	**22**	–	–
Bonds	**353**	**353**	61	61
Promissory notes	–	–	6	6
Long–term loans	**102**	**102**	152	152
Other financial liabilities	**36**	**36**	–	–
	3,637	**3,637**	**3,261**	**3,261**

As at 31 December 2006, the operating lease commitments on uncancellable lease for all the companies included into the consolidation totaled £32,000 (2005: £28,000).

11. Financial assets

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

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Other listed and non–listed investments (less than 5% holding)	244	97
	244	**97**

Financial assets comprise the unlisted certificates of the closed–end venture fund "Dovira–Capital" created for the purposes of potential acquisitions by the Company in Ukraine. 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.

12. Deferred tax

	As at 31 December 2006 £ '000	As at 31 December 2005 (restated) £ '000
Deferred tax asset at the beginning of the period	**90**	**36**
Deferred tax liability at the beginning of the period	**989**	**703**
Deferred tax recognised in income statement during the year	(18)	(9)
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortisation	(47)	(26)
Deferred income tax arising on the revaluation of property, plant and equipment	–	152
Exchange differences on translation to the presentation currency	(109)	115
Deferred tax asset at the end of the period	**42**	**90**
Deferred tax liability at the end of the period	**767**	**989**

13. Inventories

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Raw materials	**714**	2,714
Finished goods	**1,308**	1,140
Other inventories	**628**	669
	2,650	**4,523**

As at 31 December 2006 inventories with a value of £700,142 were pledged as collateral for the loan received from OTP Bank Ukraine (£2,439,000 at 31 December 2005).

14. Trade and other receivables

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Trade receivables	**2,851**	3,249
Other receivables	**440**	426
Prepayments	**419**	337
	3,710	**4,012**

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

15. Other financial assets

	As at 31 December 2006 £ `000	As at 31 December 2005 £ `000
VAT receivable	**103**	315
Prepaid profit tax	**4**	6
Loans issued (to related parties)	**–**	–
Loans issued (to other parties)	**9**	37
	116	**358**

Loans issued are denominated in Hryvna, are short term in nature, and are interest free. Loans include £5,000 issued to contracted transporters of goods for purchase of vehicles and £4,000 issued to Group employees (2005: £13,000 to Group employees).

16. Cash and cash equivalents

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Cash – in UAH	**7**	6
Bank – in UAH	**100**	409
Bank – in foreign currency	**52**	38
	159	**453**

17. Share capital

	Authorised			
	As at 31 December 2006 Number	As at 31 December 2006 £ '000	As at 31 December 2005 Number	As at 31 December 2005 £ '000
Ordinary shares of 10p each	50,000		50,000	
		5,000		5,000

	Issued and fully paid at beginning and end of the year			
	2006 Number	2006 £ '000	**2005 Number**	2005 £ '000
Ordinary shares of 10p each				
At beginning of the year	41,215	4,121	41,215	4,121
Other issues during the year	–	–	–	–
At end of the year	41,215	4,121	41,215	4,121

18. Warrants

The Company granted warrants to the broker WH Ireland at the admission to the Alternative Investment Market of the London Stock Exchange on 11 February 2005. The warrants are exercisable until 11 February 2008. During the period under review the Company did not grant warrants to any parties.

	2006 Weighted average exercise price (£)	2006 Number	2005 Weighted average exercise price (£)	2005 Number
Outstanding at beginning of the year	0.535	1,302,896	0.535	1,302,896
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	–	–	–	–
Outstanding at the end of the year	0.57	1,302,896	0.535	1,302,896

Fair value of the warrants granted and outstanding at the end of the year 2006 was estimated to be £120,000.

19. Other reserves

	Notes	Share premium £ '000	Merger reserve £ '000	Share option reserve £ '000	Translation reserve £ '000	Revaluatio n reserve £ '000	Total equity £ '000
Balance at 1 January 2005		**–**	**(1,414)**	**–**	**–**	**2,021**	**607**
Issue of shares		4,398	–	–	–	–	4,398
Fund–raising expenses		(361)	–	–	–	–	(361)
Share based payments		(120)	–	196	–	–	76
Exclusion from Group		–	(12)	–	–	–	(12)
Depreciation on revaluation of property, plant and equipment		–	–	–	–	(108)	(108)
Reduction of revaluation reserve		–	–	–	–	(25)	(25)
Decrease of minority interest		–	–	–	–	28	28
Exchange differences on translation to the presentation currency		1	–	–	261	335	597
Balance at 31 December 2005 (restated)		**3,918**	**(1,426)**	**196**	**261**	**2,251**	**5,200**
Issue of shares		–	–	–	–	–	–
Share based payments		–	–	19	–	–	19
Exclusion from Group		–	(1)	–	–	–	(1)
Depreciation on revaluation of property, plant and equipment		–	–	–	–	(135)	(135)
Reduction of revaluation reserve		–	–	–	–	(4)	(4)
Decrease of minority Interest		–	–	–	–	2	2
Exchange differences on translation to the presentation currency		–	–	1	(631)	(270)	(900)
Balance at 31 December 2006		**3,918**	**(1,427)**	**216**	**(370)**	**1,844**	**4,181**

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.
Translation	Amount of all foreign exchange differences arising from the translation of the financial information of foreign subsidiaries.
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.

20. Long term loans

Long term loans are repayable in 2008 and consist of £101,644 interest free loan as at 31 December 2006 (£152, 408 as at 31 December 2005). The fair value of the interest free loan has been calculated by discounting the cash flows using a 12% (2005: 12%) discount rate.

21. Current portion of long term liabilities

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Bonds	**353**	61
Promissory notes	–	6
Other loans	**36**	–
	389	**67**

In 2006, Agrospetsresursy LLC placed bonds denominated in Hryvna in the total amount of £353,376. The bonds bear an interest of 15.0% (2005: 12%) and mature on 7 March 2008.

Other loans are repayable in 2007. The loans are denominated in USD and bear an interest of 11.5%.

22. Bank loans and overdrafts

Bank loans include a secured 3–year credit line of up to UAH 40,000,000 from OTP Bank CJSC (former "Raiffeisen Bank Ukraine") denominated in Ukrainian Hryvna (UAH). As at 31 December 2006 an amount of £3,145,597 was drawn from this credit line (2005: £3,042,000). The average interest rate as at December 31, 2006 was 14.5% (2005: 15.5%). This loan is secured by the assets of OJSC Molochnik, Starokonstantinovskiy Molochniy Zavod SC and Starkon–Moloko LLC.

23. Trade and other payables

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Trade payables	1,325	1,966
Other payables	233	305
Prepayments	116	27
Accruals	252	249
VAT and other taxation payable	27	59
	1,953	**2,606**

24. Expenses by nature

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Raw materials and consumables used, cost of goods sold	24,408	28,762
Changes in inventories of finished goods and work in progress	(328)	301
Wages and salaries	3,227	2,426
Social security costs	1,152	829
Deprecation of property, plant and equipment	1,295	869
Amortisation of intangible fixed assets	64	28
Operating lease expense (Property)	481	400
Write–down of inventory to net realisable value	47	–
Loss on disposal of fixed assets	16	–
Exchange difference	20	-
Other expenses	3,236	4,393
Total cost of goods sold, marketing and distribution costs and administrative expenses	**33,618**	**38,008**

25. Employee benefit expense

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Wages and salaries (including key management personnel)	3,227	2,426
Social security costs	1,152	829
	4,379	**3,255**

Remuneration of key management personnel

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Salaries	219	257
Short–term employee benefits	–	–
Post–employment benefits	–	–
Other long–term benefits	–	–
Share–based payments	32	76
Bonuses	30	30
Termination benefits	–	–
	281	**363**

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

26. Income tax expenses

Income tax comprised the following:

	Year ended 31 December 2006 £ '000	Year ended 31 December 2005 £ '000
Current tax charge – Ukraine	184	348
Current tax charge – non–Ukraine	–	24
Deferred tax relating to the origination and reversal of temporary differences	(65)	(35)
Income tax charge for the year	**119**	**337**

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% (2005: 25%)

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Profit before tax – Ukraine	244	895
Profit before tax – non–Ukraine	954	1,450
	1,198	**2,345**
Tax calculated at domestic tax rates applicable to profits in the relevant countries	80	275
Expenses not deductible for tax purposes	39	62
Tax charge	**119**	**337**

The weighted average applicable tax rate was 6.6% (2005: 11.7%). 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 believes 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.

27. 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 and in the money 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 57 pence. The warrants were granted to the Company's Brokers on 31 January 2005 and are exercisable until 31 January 2008 at the price of 53.5 pence.

	31 December 2006	31 December 2005
Net profit attributable to ordinary shareholders, £ '000	1,095	2,003
Weighted number of ordinary shares in issue	41,214,953	39,924,465
Basic earnings per share, pence	2.6	5.0
Weighted number of WH Ireland warrants in the money	–	1,152,974
Weighted number of Directors' option shares in the money	–	807,082
Diluted average number of shares	41,214,953	41,884,521
Diluted earnings per share, pence	2.6	4.8

Although no potentially dilutive instruments existed at 31 December 2006, the company has 1,302,896 share warrants issued to the nominated broker WH Ireland exercisable until 11 February 2008 at a price 53.5 pence and 912,028 share options issued to the Directors exercisable until 11 February 2009 at a price 57 pence. The effect of these warrants and options is antidilutive.

28. Share-based payments

The Company operates an equity–settled share based remuneration scheme for employees. During the period under review the Company did not grant share options to the Directors. All options granted to the Directors in the prior periods and outstanding as at 31 December 2006 vested on 11 February 2006 and expire on February 11, 2009. During 2006, the exercise price of the options granted to the Directors was increased from 53.5 pence to 57 pence to reflect the market conditions at the time. As a result of the modifications, no incremental fair value was granted to the Directors as the new market price reflected the current market conditions and the options remained out of money during the year. Thus no additional charge was recorded in the accounts.

	2006 Weighted average exercise price (£)	2006 Number	2005 Weighted average exercise price (£)	2005 Number
Outstanding at beginning of the year	0.535	912,028	–	–
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	0.570	912,028	0.535	912,028
Exercisable at the end of the year	0.570	912,028	0.535	912,028

The fair value of the options granted in 2005 was £95,336. An Income Statement remuneration charge of £19,336 was recognised in 2006 (2005: £76,000).

The fair value of options granted in 2005 has been calculated based on the following data.

Item	2005
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 last 4 years.

29. Dividends

As at 20 April 2007, the Board of Directors proposed the final dividend payment of 0.51 pence per ordinary share for the year ended 31 December 2006 which would lead to 0.61 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 29 June 2007 to the shareholders on the register as at 1 June 2007. No tax consequences for the Group will arise out of this transaction as the Group's parent company is an entity registered under the Jersey laws.

	Year ended 31 December 2006 £ '000	Year ended 31 December 2005 £ '000
Final dividend for 2005 of 0.50 pence (2004 – nil) per ordinary share proposed and paid during the year relating to the previous year's results	206	–
Interim dividend of 0.10 pence (2005 – 0.35 pence) per ordinary share paid during the year	41	148
Total	**247**	**148**

The directors are proposing a final dividend of 0.51 pence (2005 – 0.50 pence) per share totalling £210,000 (2005: £206,000). This dividend has not been accrued at the balance sheet date.

30. Minority interest

	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
Balance at 1/01/2006	**246**	132
Acquisitions	–	118
Net profit for the period	**(16)**	5
Decrease of minority interest	**(2)**	(43)
Exchange differences on translation to the presentation currency	**(29)**	34
Balance at 31/12/2006	**199**	**246**

As at 31 December 2006 a minority interest of 2.40% (2005: 2.57%) was held in Molochnik OJSC, and 37.85% was held in Letichevsky Maslozavod OJSC (2005: 37.85%).

31. 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.

	Year ended 31 December 2006 £ '000	Year ended 31 December 2005 £ '000
Sales	**40**	160
Purchases	**47**	146

Balances due from/(to) related parties at each period end are shown below.
Trade and other payable include payables to the shareholders of the Company.

	As at 31 December 2006 £ '000	As at 31 December 2005 £ '000
Receivables and prepayments	**221**	305
Trade and other payable	**(41)**	(419)
Promissory notes	–	(6)

In 2006, the Group's commercial relationships with the related parties comprised the purchases and sales and repayment of debts outstanding. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given to or provided by from the Group to related parties and vice versa.

The ultimate controlling owners and beneficiaries of the related parties were Messrs Alexander Slipchuk and Sergey Evlanchik.

32. Currency analysis

Currency analysis for the period ended 31 December 2006 is set out below:

£ '000	UAH	USD	RUR	GBP	EUR	Total
Non-Current Assets						
Property, Plant and equipment	10,854	11	–	–	–	10,865
Intangible assets	719	334	–	184	–	1,237
Investments	244	–	–	–	–	244
Deferred tax assets	42	–	–	–	–	42
Current assets						
Inventories	2,650	–	–	–	–	2,650
Trade and other receivables	3,656	4	5	1	44	3,710
Other Financial Assets	116	–	–	–	–	116
Cash and cash at bank	105	15	–	28	11	159
Total assets	**18,386**	**364**	**5**	**213**	**55**	**19,023**
Non-Current Liabilities						
Long–term loans	102	–	–	–	–	102
Deferred tax liabilities	767	–	–	–	–	767
Current Liabilities						
Bank loans and overdrafts	3,146	–	–	–	–	3,146
Trade and other payable	1,718	94	11	33	97	1,953
Current portion of long term liabilities	353	36	–	–	–	389
Current income tax liabilities	23	1	–	–	–	24
Total Liabilities	**6,109**	**131**	**11**	**33**	**97**	**6,381**

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

£ '000	UAH	USD	RUR	GBP	EUR	Total
Non-Current Assets						
Property, Plant and equipment	9,516	12	–	–	–	9,528
Intangible assets	757	392	–	184	–	1,333
Investments	97	–	–	–	–	97
Deferred tax	90	–	–	–	–	90
Current assets						
Inventories	4,523	–	–	–	–	4,523
Receivables and prepayments	4,000	9	2	1	–	4,012
Other Financial Assets	358	–	–	–	–	358
Cash and cash at bank	415	25	–	13	–	453
Total assets	**19,756**	**438**	**2**	**198**	–	**20,394**
Non-Current Liabilities						
Long–term credits	152	–	–	–	–	152
Deferred tax	989	–	–	–	–	989
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	**6,566**	**1**	–	**368**	**77**	**7,012**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting ("AGM") of Ukrproduct Group Ltd will be held on Thursday 21 June 2007 at 10.00am 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 2006.

2. To receive and approve the Financial Statements of the Company for the year ended 31 December 2006.

3. To receive and approve the Remuneration Committee Report.

4. To approve the payment of a dividend for the year ended 31 December 2006 of 0.61 pence per ordinary share, including a final dividend of 0.51 pence per share to be paid on 29 June 2007 to shareholders whose names appear on the register of members at the close of business on 1 June 2007.

5. To authorise the Directors, subject to a satisfactory fee arrangement and a three–year review of independence, to reappoint BDO Stoy Hayward LLP as auditors to the Company to hold office for the financial year 2007 until the conclusion of the next annual general meeting.

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

20 April 2007

NOTES

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2. In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders must be entered on the Company's share register at 6.00 pm on Wednesday 20 June 2007 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 2006	Financial year end
24 April 2007	Announcement of preliminary results
21 June 2007	Annual General Meeting
29 June 2007	Final Dividend Payment
25 September 2007	Announcement of interim results
31 December 2007	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 at 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 1 June 2007. 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 Cristin 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.

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	51	45.9%	127,934	0.3%
5,001 to 50,000 shares	41	36.9%	700,366	1.7%
50,001 to 200,000 shares	7	6.3%	649,242	1.6%
Over 200,000 shares	12	10.9%	39,737,411	96.4%
Total	**111**	**100.0%**	**41,214,953**	**100.0%**

Analysis of Shareholders

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 20 April 2007, 71.8% of the common shares of the company.

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