UKRPRODUCT GROUP LTD

Annual Report and Consolidated Financial Statements 2007

For the year ended 31 December 2007

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Contents:

HIGHLIGHTS ... 2
CHAIRMAN'S STATEMENT ... 3
CHIEF EXECUTIVE'S STATEMENT ... 6
FINANCIAL REVIEW ... 8
BOARD OF DIRECTORS ... 10
CORPORATE ADVISERS ... 11
DIRECTORS' REPORT ... 12
CORPORATE GOVERNANCE REPORT ... 14
CORPORATE SOCIAL RESPONSIBILITY REPORT ... 16
ENVIRONMENTAL COMPLIANCE REPORT ... 17
REMUNERATION COMMITTEE REPORT ... 18
INDEPENDENT AUDITORS' REPORT ... 20
CONSOLIDATED BALANCE SHEET ... 22
CONSOLIDATED INCOME STATEMENT ... 23
CONSOLIDATED CASH FLOW STATEMENT ... 24
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ... 25
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ... 26
NOTICE OF ANNUAL GENERAL MEETING ... 56
SHAREHOLDER INFORMATION ... 58

HIGHLIGHTS

January 2007	Skimmed milk powder dryer is fully commissioned.
February–March 2007	Massive increase in world price of skimmed milk powder.
June 2007	Continuation of the programme for the improvement of milk quality.
July 2007	Starkon Plant certified as a supplier of skimmed milk powder to Nestle Ukraine. New hard cheese plant at Starkon fully operational.
August 2007	Second smoke–room for production of smoked sausage cheese put in operation at Molochnik Plant.
September 2007	Ukrproduct Group starts deliveries of skimmed milk powder under the United Nations World Food Programme. Starkon Plant certified as a supplier of skimmed milk powder to Kraft Foods.
November 2007	Integrated set of equipment for whey purification, condensation and chrystallisation is installed and fully operational at Starkon Plant. Ukrproduct Group wins the tender for delivery of skimmed milk powder to Kraft Foods.

CHAIRMAN'S STATEMENT

IN THE PAST YEAR, THE GROUP'S OPERATING STRENGTHS, AGILE DECISION-MAKING BY THE EXECUTIVE TEAM AND FAVOURABLE BUSINESS ENVIRONMENT HAVE DELIVERED THE BEST PERFORMANCE ON RECORD TO THE SHAREHOLDERS. I AM PLEASED TO OBSERVE THE CONTINUING FLEXIBILITY OF THE BUSINESS AND THE STRENGTH OF THE GROUP'S PRODUCT PORTFOLIO. IN A DYNAMICALLY EVOLVING ENVIRONMENT OF DAIRY SECTOR IN UKRAINE SUCH A COMBINATION IS A POWERFUL PORTENT FOR THE SOUNDNESS AND VITALITY OF THE UNDERLYING BUSINESS MODEL.

Results

Against the background of robust domestic demand and the favourable situation on world markets for skimmed milk powder, the Group reported sales of £48.1 million, an increase of 37% on the previous year. EBITDA, calculated as Profit from operations add back depreciation and amortisation, grew from £2.8 million in 2006 to £5.5 million, an increase of over 96%. An increase in gross margins from 20.7% to 21.7% contributed to a three-fold increase in Profit before tax from £1.2 million to £3.7 million.

For the domestic business in Ukraine, 2007 was a period of full recovery in consumer confidence which had been hit hard by the Russian embargo on import of Ukrainian dairy products in early 2006. It is now obvious that the Group's strategy of refusing to buckle under the huge price pressure in 2006 paid well in the current year as sales recovered and margins improved. The development of the product portfolio, while relatively minor, has helped to secure the broad presence and recognition of the products on the shelves of the fast-developing retailers. For the international business, the past year was exceptional. Nearly all dairy products, skimmed milk powder in particular, have experienced a surge in demand with prices adjusted upwards, accordingly. The Group managed to capitalise on the opportunities presented with the timely installation of the new skimmed milk dryer in December 2006; from January 2007 onwards the new equipment operated at a near full capacity and produced skimmed milk of excellent grade. As a result, both volumes and prices of skimmed milk powder have been remarkably robust.

Dividends

It has been the Group's dividend policy to reward shareholders in line with the trading performance of the business and financial results whilst maintaining the cash position of the business and supporting the balance between reinvesting profits and dividend distributions. In view of the recovery in the Group's core business in Ukraine and strong financials delivered by the business, the Board is recommending a final dividend payment of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2008 to the shareholders on record as at 6 June 2008.

Strategy

2007 validated one of the central business principles of Ukrproduct Group, that of the profitable retention of the Group's position in its core business segments. As before, these are soft (processed) cheese, butter, skimmed milk powder and the most recent addition of hard cheese. While maintaining the market position in branded soft cheese, the Group also demonstrated an ability to continue to improve margins in the butter segment.

In production, our strategy remains focussed on manufacturing excellence with only the newest and most advanced equipment installed in our plants and only the most up-to-date technical expertise contracted for the industrial work. A significant amount of capex, some £11 million in total, has been dedicated over the last three years to upgrading our plants and supporting the Group's competitive position in Ukraine. This capex has resulted in our productions facilities being one of our best assets, serving as the Group's manufacturing platform and creating a significant barrier to entry to potential competitors.

Brands, as we always believed, are our most treasured business resource. They withstood a number of business challenges, including competitive pressure, portfolio adjustment, price repositioning and changing habits of consumers. Today, as ever, we are convinced that our brands, led by "Nash Molochnik" (Our Dairyman), are some of the most recognisable and profitable in Ukraine's dairy sector. We are careful in preserving their integrity by conducting targeted in-store merchandising campaigns and adhering to a policy aimed at price and quality differentiation.

Our distribution network, always the backbone of the business, has been strengthened and streamlined. The development of the modern retail formats in Ukraine has seen the role of the Group's distribution network defined with greater clarity. We envisage that the central warehouse facilities of the supermarkets will play a bigger role in delivering the goods to customers in the future however the time of the full-cycle service delivery has not yet come. In this transitional period of three to five years, we are keen to support the customers, both at retail and distribution level, by providing all necessary logistical support for the timely delivery of our products and associated services.

Our export operation has seen substantial progress in the last year. Buoyed by nearly a two-fold increase in skimmed milk powder capacity and by significant quality improvement, Starkon Plant has enjoyed a close-to-capacity utilisation in 2007. While the situation on the world markets in 2007 has clearly been exceptional, we believe that with the new equipment the opportunities to capitalise on the favourable prices will be a material benefit for the Group in the future.

In early 2008, Ukraine's long-awaited accession to WTO finally happened. As this Report goes to print, the details of Ukraine's commitments are not yet known in detail; neither is the potential impact of the accession to Ukrproduct's business. We expect, however, that the new opportunities for our business will be significant, in particular with respect to the opening of the hitherto closed export markets for skimmed milk powder. We intend to sustain the growth in the future by growing organically via construction of the new modern facilities as high production and quality standards become vital for the Ukrainian dairy producers to be able to comply with the WTO requirements. In one potential area of growth in Ukraine, acquisitions, we will continue to screen the appropriate quality targets as bolt-on additions to the Group's core businesses.

Board composition

On 10 April 2008 Iryna Yevets tendered her resignation as Chief Executive Officer of the Company in order to pursue other business interests. Subsequently, on 22 April 2008, Sergey Evlanchik was appointed Chief Executive Officer. Sergey was Chief Executive Officer of the Company at the time of the Company's admission to AIM in February 2005 and was instrumental in UPG's success prior to and post flotation, establishing the Company as one of the market leaders in the Ukrainian dairy produce market until he resigned this position in June 2006. The Board would like to thank Iryna for her work over the last six years and her contribution to the development of the Company and its product offering.

Outlook

Looking forward, the Board sees a number of opportunities to expand and improve the business. Firstly, we are encouraged to see the continuing shift of consumer demand in Ukraine towards quality products at a reasonable price. This is a trend which the Group has used to its advantage in the past and shall continue to employ in the future. The Group's brand portfolio is diversified yet focused enough to withstand the competitive pressures. Improving recognition and sales of particular growth products, such as smoked sausage cheese, is the best way forward for leveraging our industrial and commercial advantages. Secondly, we are convinced that consolidation in the dairy industry of Ukraine is inevitable and is slowly happening. While it is difficult to assess a direct financial impact of this process on the Group, we nevertheless believe that the competitors are weakening and will gradually lose the ability to produce and distribute dairy products. This bodes well, although indirectly, for the Group's trading performance. In addition, barriers to entry into a dairy business in Ukraine of a commercially meaningful scale are very high and we believe that this barrier delivers a sizeable benefit to the Group. Finally, our manufacturing base is now working towards providing a major competitive advantage for the Group. At both of the Group's locations at Zhytomir and Starkon, we now have centres of flexible production capable of delivering quality products at short notice. This manufacturing ability is increasingly important in Ukraine and seasonal factors and shifts in consumer preferences demand greater flexibility from the leading dairy producers.

It was a year of the excellent achievements. I congratulate everyone at the Group with the success and look forward to the new exciting year.

Jack Rowell
Chairman

22 April 2008

CHIEF EXECUTIVE'S STATEMENT

UNDENIABLY, YEAR 2007 HAS BEEN THE BEST ON RECORD FOR UKRPRODUCT GROUP. WE HAVE CAPITALISED ON THE NEWLY EXPANDED CAPACITY IN SKIMMED MILK POWDER, COMPLETED THE NEW HARD CHEESE PLANT, RESTORED SALES AND PRODUCTION VOLUMES IN PROCESSED CHEESE, RATIONALISED DISTRIBUTION NETWORK AND STRENGTHENED THE GROUP'S MILK COLLECTION SYSTEM. FINANCIAL RESULTS REFLECTED THESE ACHIEVEMENTS BY DEMONSTRATING TO THE SHAREHOLDERS THE VALUE OF THE GROUP'S CORE BUSINESS.

Background

The year under review was the first year following the crisis in the dairy industry of Ukraine inflicted by the Russian import ban in 2006. Without a doubt, 2007 was a period of full–scale recovery for Ukrproduct Group. Helped by the encouraging trends in skimmed milk powder worldwide, the Group jump–started a gradual recovery of the domestic volumes in processed cheese as well. Butter volumes held up very well throughout the year, just as the management team expected at the outset. The margins on this product have improved, reflecting the continuous effort by management to leverage the brands in the portfolio. Hard cheese, our new flagship product, started well and is now in production. We now have the requisite experience and inventories to carry on an introduction of the product to the shelves of supermarkets in Ukraine.

Operating review

The year started well with the rapid and significant increase in the export prices for skimmed milk powder (SMP) on the world markets. The Group's increased SMP capacity allowed for an immediate intake of new orders which resulted in the capacity utilisation rate being close to 100% in April–June 2007. Throughout this period, the Group increased the supply of raw milk correspondingly to allow for greater quality and quantity of the manufactured skimmed milk. By mid 2007, the price increase in SMP prices subsided and the prices remained at the high level. In the second half of the year, there was a gradual reduction in demand with the accompanying drop in price. Overall for the year, an average selling price for a tonne of skimmed milk powder sold by the Group was some 83% higher than in the previous year.

Domestically, the sales of our main products, soft (processed) cheese and packaged butter, continued a steady recovery albeit at slightly different speeds. In soft cheese, the price–depressing effects in the aftermath of the Russian import embargo continued to hamper the revival of volumes although the price recovery went well. Competitive landscape in Ukraine remained chaotic and unpredictable to a large extent; a number of smaller and mid–tier players displayed the signs of financial distress which they attempted to overcome by diminishing quality and reducing prices. The Group's response to such attempts was to keep a steady flow of good–quality products at reasonable prices and to ensure the continuing presence of products on the shelves of supermarkets. This strategy worked well, in our view, and by the end of the year the Group's volumes in soft cheese experienced the dynamics not seen since 2004–2005. The smoked sausage cheese, in particular, has been a bright spot. A relatively new product for the Group, it now accounts for close to 30% of the total soft cheese sales and continues to grow. As a result, the Group's overall domestic sales have grown and are expected to grow further due to the continuing expansion of the supermarkets.

The new product category, hard cheese, was moving into production by the end of the year. The initial trials of the product were very encouraging as the quality differentiated the Group's hard cheese from competitors' offerings. For the reasons of profit maximisation due to the extremely favourable world market conditions for skimmed milk powder in 2007, it was decided to divert the supply of raw milk to production of skimmed milk powder – the strategy that worked very well for the company and investors. Starting from the beginning of 2008, we expect milk volumes to rise substantially to provide increasing input for the volumes of hard cheese. The quality of our hard cheese is now sufficient to safeguard the Group's brand standards and to provide customers with a first–class product.

Our capex programme for the year was fully reflective of the recovery mode. The emphasis was on the maintenance of capex, as well as on drawdown of the pre–committed expenditures for the year. The hard cheese plant at Starkon was completed in July, a new smoke room was deployed to Molochnik in August, and a new set of equipment for whey purification was installed at Starkon in November. In total, capital expenditure was materially lower in 2007 than in either of the last two years. This approach safeguarded the Group's cash position and had the benefit of helping the Group remain financially secure at a time of the credit markets turmoil.

Our distribution system, while remaining the backbone of the Group's business model, has had to adapt to the new requirements. The development of the modern retail formats in Ukraine is both an opportunity and a challenge. It is an opportunity because there is an on–going inevitable shift of consumers towards supermarkets away from the open–air markets. The Group is keen to capitalise on this opportunity by delivering good quality products and providing consistent service to the emerging retail players. It is also a challenge because the centralised distribution warehouses do not exist for a majority of supermarkets in Ukraine. Therefore, the Group is expected to provide retail customers with efficient yet economical distribution support. With this principle in mind, we have determined that the distribution subsidiary in Ternopil, Western Ukraine had to be closed. The closure did not affect the existing sales in the larger Western Ukraine as the client lists have been transferred to the Lviv subsidiary. In the future, we believe that a selective optimisation of the distribution system will become a feature of the on–going corporate rationalisation programme.

Our system for the supply of raw milk and raw milk ingredients proved itself capable of handling significantly larger quantities of input than a year before. We have been developing the milk collection system for over seven years now and we believe that we have one of the best milk supply chains in the country. Being a traditionally favourable region for milk production, Western Ukraine where our major plants are located, offers significant opportunities for further expansion of the milk collection capacity of the Group in the future.

Looking forward

In the opinion of the Board, the Group's core domestic markets in Ukraine are still offering attractive opportunities for business development. Ukraine remains a dynamically developing, vibrant economic environment with rising consumer affluence and burgeoning interest in quality food products. It has been the Group's business to develop such products and bring them to the consumers, and we are hopeful to be able to continue our progress for every product segment of our operations. In our traditional products, soft cheese and packaged butter, we remain the market leader and have full intent of being there for a long time. The major thrust of the management efforts in the near future will be directed at maximising the production capacities in these segments. In skimmed milk powder, we are certain that the times of increased volatility will be succeeded by times of excellent opportunities such as the year under review. Our particular emphasis in the coming years is the development and firm establishment of our new product, hard cheese, in the Ukrainian marketspace. The initial steps are encouraging and we are looking forward to the continuation of work in this direction. In particular, our new upmarket brand "Molendam" will be introduced to the consumers soon and leveraged in hard cheeses (for which it was primarily designed), as well as in processed cheese and butter. We anticipate that this brand will improve margins considerably.

I would like to express my gratitude to everyone at the Group who made the last year such a prominent success. Together, we are looking forward to the new exciting future of opportunities and growth.

Sergey Evlanchik
Chief Executive Officer

22 April 2008

FINANCIAL REVIEW

THE GROUP'S FINANCIAL RESULTS HAVE REFLECTED THE RECOVERY THAT THE BUSINESS EXPERIENCED IN THE PAST YEAR. THE VOLUMES IMPROVED SIGNIFICANTLY IN ALL PRODUCT SEGMENTS, SALES STAGED A HEALTHY UPTURN, AND MARGINS HAVE IMPROVED FURTHER. CAPITAL EXPENDITURE WAS CURTAILED AT THE LEVELS REQUIRED TO COMPLETE THE NEW HARD CHEESE PLANT AND PROVIDE MAINTENANCE FOR THE GROUP'S CORE ACTIVITIES. STANDBY CREDIT FACILITIES REMAINED FIRMLY IN PLACE AND IN SIZE REQUIRED TO FUND THE GROUP OPERATIONS AT A TIME OF THE CREDIT TURMOIL WORLDWIDE.

Results

In 2007, the Group generated sales of £48.1 million (2006: £35.0 million), main driving factor of the increase being skimmed milk powder. This product accounted for an unusually high proportion of sales and gross profits: £20.4 million (42%) and £3.8 million (36%) respectively (2006: £7.0 million and £0.9 million). Other product segments have also done well. Packaged butter, our long-time solid performer, generated £13.0 million in sales and £3.5 million in gross profit (2006: £11.6 million and £2.9 million). Soft (processed) cheese, helped by an encouraging trend in smoked sausage cheese, posted sales of £12.2 million and gross profit of £2.8 million (2006: £12.7 million and £3.1 million). The balance of sales and gross profits was made up by the distribution of third-party products and provision of transport services.

EBITDA[1] for the year under review is reported at £5.5 million vs. £2.8 million the year earlier. Such a significant increase resulted mainly from the upside in sales and margins delivered by skimmed milk powder, as well as from the stringent cost controls imposed in 2006 and continued throughout 2007. Profit before taxes (PBT) amounted to £3.7 million (2006: £1.2 million). One of the substantial items of expenditure last year was interest expense, £0.5 million in 2007 (2006: £0.2 million). This was clearly a temporary situation, due to the necessity to fund forward storage and complete the new hard cheese plant, and the Group's borrowing requirement and leverage have always remained conservative.

Product segments

The following table shows the gross and PBT margins for 2007 and 2006.

Product / Year	Butter		Milk powders		Soft (processed) cheese	
	2007	2006	2007	2006	2007	2006
Gross margin, %	26.8	24.7	18.6	12.3	22.9	24.1
PBT margin, %	13.3	10.1	16.6	9.2	5.5	5.0

Gross margins increased in butter and milk powders, decreased – in soft cheese. In the first of these two categories, butter, there has been a pronounced consumer shift towards quality. The Group, with its quality offering of butters for every segment of the market, has been one of the principal beneficiaries among the dairy processors in Ukraine. In milk powders, a runaway demand for the product worldwide ensured that the margins increase accordingly notwithstanding a seasonal increase in raw milk prices in Ukraine. In soft cheese, the gross margin decreased slightly as a consequence of the increase in raw milk price but the pre-tax margin increased reflecting the growing efficiencies in sales & distribution system of the Group.

Cash flow and capital expenditure

Net cash flow from the operating activities was reported at £3.6 million (2006: £4.1 million). Strongly positive operating cash flow was a direct result of the improved profitability and management's efforts to control the cash flow by maintaining the stringent debt collection discipline. Although the balance of inventories and trade receivables increased somewhat during the year, this was a normal consequence of the recovering sales and shift towards supermarkets in distribution. Capital expenditure in the year came to £2.7 million (2006: £4.5 million) – a return to a more normal pattern of maintenance capex.

[1] EBITDA is calculated by adding depreciation and amortisation to the profit before interest and taxation.

The main investments were made in hard cheese plant and the development of the milk collection areas surrounding the Group's plants.

Bank facilities

The Group has a working capital facility of up to £4.0 million (2006: £4.5 million) provided by Ukraine OTP bank at interest rates fixed in both Hryvna and US Dollar. As at 31 December 2007, £3.4 million of this facility was used (2006: £3.1 million). The facility is renewable in May 2008 and has various clauses protecting the Group from the occurrence of unexpected events. Overdraft facilities of up to £1.5 million are also available to the Group from various banks in Ukraine. As at 31 December 2007, none of these facilities was used (2006: nil). Further funding for working capital needs and project finance, if necessary, is available from either the principal bankers or other banking institutions in Ukraine.

Earnings per share

The basic earnings per share (EPS) in the year were 7.8 pence as compared to 2.6 pence in 2006. 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 7.5 pence for the year versus 2.6 pence in 2006.

Dividends

In view of the Group's positive trading performance and strong cash generation, the Board is recommending a final dividend of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year (2006: 0.61 pence). If approved at the AGM, the final dividend will be paid on 30 June 2008 to shareholders on the register as at 6 June 2008.

Dmitry Dragun
Chief Financial Officer

22 April 2008

BOARD OF DIRECTORS

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. He is also acting as Chairman of Celsis plc, the UK's leading provider of life science products and laboratory services and a public company listed on AIM of the London Stock Exchange.

Sergey Evlanchik, Chief Executive Officer

Sergey Evlanchik is a founder of Ukrproduct Group. He studied at Vladivostok State University of Economics & Service in the Russian Federation and Oxford University in the UK, where he received his MBA degree. Together with Alexander Slipchuk, he established the equity trading company, Alfa–Broker in 1994. After the recess of the Russian and Ukrainian equity markets in 1998, Sergey refocused 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.

Dr Dmitry Dragun, Chief Financial Officer

Dmitry Dragun had obtained the MBA degree from Oxford University in 1997. Post–MBA, Dr. Dragun 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. Dr. Dragun joined Ukrproduct Group in 2003 as the Financial and Investment Adviser, and was later appointed Chief Financial Officer of the Group. Dr Dragun holds the 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 in advisory capacity.

CORPORATE ADVISERS

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DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of Ukrproduct Group Ltd for the year ended 31 December 2007.

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

Directors of the Company are Jack Rowell (Chairman), Iryna Yevets (Chief Executive Officer), Dmitry Dragun (Chief Financial Officer), Sergey Evlanchik (Executive Director) and Alexander Slipchuk (Executive Director). Details of the Directors' remuneration are set out in note 23.

The interest of the Directors in the share capital of the Company and the share options granted as at 31 December 2007 and 31 December 2006 is shown in the following table.

	Shares		Share options	
	2007	2006	2007	2006
Executive				
Sergey Evlanchik	14,422,383	14,872,383	–	–
Iryna Yevets	–	–	234,299	434,299
Alexander Slipchuk	14,487,383	14,737,383	–	–
Dr Dmitry Dragun	–	–	117,149	217,149
Non-executive				
Dr Jack Rowell	18,690	18,690	130,290	130,290

Employees

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

Substantial shareholdings

As at 22 April 2008, the Company has been notified of the following substantial interests in its issued ordinary share capital (the ten largest shareholders are reported):

Shareholder	Number of ordinary shares	Holding %
Densim Group Management SA	14,487,383	33.8%
Crensel Finance Ltd	14,422,383	33.3%
The Bank of New York (Nominees) Limited	3,756,500	8.8%
BBHISL Nominees Limited	2,764,000	6.5%
Chase Nominees Limited	2,007,300	4.7%
Hanover Nominees Limited	1,057,684	2.5%
East Capital Bering Ukraine Fund	900,000	2.1%
Pershing Keen Nominees Limited	231,300	0.5%
State Street Nominees Limited	200,000	0.5%
Clachan Nominees Limited	175,000	0.4%
Total number of shares	42,817,849	

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 advises, subject to a satisfactory fee arrangement, to reappoint BDO Stoy Hayward LLP as auditors to the Group for the financial year 2008 at the AGM on 24 June 2008.

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 as amended.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies (Jersey) Law 1991. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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.

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 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 development programme of 2008–2012 puts specific emphasis on acquiring and installing only the most advanced and environmentally–friendly production and auxiliary equipment.

Food safety

In 2007, the Group's Starkon Plant obtained 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	
	2007	2006	2007	2006	2007	2006	2007	2006
Executive								
Iryna Yevets	60,000	60,000	60,000	46,833	60,000	–	120,000	46,833
Dr Dmitry Dragun	40,000	40,000	40,000	34,000	50,000	30,000	90,000	64,000
Alexander Slipchuk	45,000	45,000	45,000	38,250	22,500	–	67,500	38,250
Sergey Evlanchik	45,000	45,000	45,000	44,500	22,500	–	67,500	44,500
Non-executive								
Dr Jack Rowell	37,500	37,500	37,500	31,875	–	–	37,500	31,875

Share based payments

In 2005 the Company granted share based payments (share options) to the Directors during the year and details of the options outstanding at 31 December 2007 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	234,299	57.0	to 11/02/2009
Dr Dmitry Dragun	117,149	57.0	to 11/02/2009
Jack Rowell	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, 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

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 as amended. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with those financial statements. In addition we report to you if, in our opinion, 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 Chief Executive's Statement, Financial Review, Corporate Governance Statement, Corporate Social Responsibility Report, Environmental Compliance Report and the Remuneration Committee Report. 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 (UK and Ireland) issued by the Auditing Practices 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 circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

– the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at December 31, 2007 and of its profit for the year then ended,
– the Group financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991 as amended and
– the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

55 Baker Street

London

22 April 2008

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Assets			
Non-Current Assets			
Property, Plant and equipment	7	11,903	10,865
Intangible assets	8	1,093	1,237
Other loans and receivables	12	108	244
Deferred tax assets	9	51	42
Total non-current assets		**13,155**	**12,388**
Current assets			
Inventories	10	4,008	2,650
Trade and other receivables	11	5,139	3,710
Other financial assets	13	276	116
Cash and cash equivalents	14,31	1,087	159
Total Current assets		**10,510**	**6,635**
Total assets		**23,665**	**19,023**
Equity and liabilities			
Equity attributable to equity holders			
Share capital	18	4,164	4,121
Other reserves	20	4,060	4,181
Retained earnings		7,031	4,141
Total equity attributable to equity holders of the parent		**15,255**	**12,443**
Minority interest	28	**131**	**199**
Total equity		**15,386**	**12,642**
Liabilities			
Non-Current Liabilities			
Long–term loans	15	–	102
Deferred tax liabilities	9	752	767
Total Non-Current Liabilities		**752**	**869**
Current Liabilities			
Bank loans and overdrafts	15	3,407	3,146
Trade and other payables	17	3,239	1,953
Bonds	15	811	353
Other short–term liabilities		–	36
Current income tax liabilities		70	24
Total Current Liabilities		**7,527**	**5,512**
Total equity and liabilities		**23,665**	**19,023**

These financial statements were approved and authorised for issue by the Board of Directors on 22 April 2008.

The notes on pages 26 to 55 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Revenue		**48,110**	**35,053**
Cost of Sales		**(37,652)**	**(27,805)**
Gross profit	21	**10,458**	**7,248**
Administrative expenses	21	(2,770)	(2,720)
Selling and distribution expenses	21	(2,919)	(2,616)
Other operating expenses	21	(619)	(477)
Profit from operations		**4,150**	**1,435**
Finance income	22	20	–
Finance expense	22	(493)	(237)
Profit before taxation		**3,677**	**1,198**
Income tax expense	24	(415)	(119)
Profit for the year		**3,262**	**1,079**
Attributable to:			
Equity holders		3,256	1,095
Minority interest		6	(16)
		3,262	**1,079**
Earnings per share:			
Basic	26	7.8	2.6
Diluted	26	7.5	2.6

The notes on pages 26 to 55 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Cash flows from operating activities		
Profit for the year	**3,262**	**1,079**
Adjustments for:		
Exchange difference	15	20
Depreciation and amortisation	1,371	1,359
Loss on disposal of non-current assets	64	16
Interest expense	493	237
Interest income	(20)	–
Income tax expense	415	119
Share based payments	–	19
(Increase) / decrease in inventories	(1,444)	1,396
(Increase) / decrease in trade and other receivables	(1,884)	159
Increase / (decrease) in trade and other payables	1,649	(577)
Cash generated from operations	**3,921**	**3,827**
Interest received	20	–
Income tax (refunded)/paid	(384)	259
Net cash generated by operating activities	**3,557**	**4,086**
Cash flows from investing activities		
Payments for property, plant and equipment	(2,712)	(4,551)
Purchase of loans and receivables	(25)	(169)
Proceeds from sale of property, plant and equipment	28	35
Proceeds from sale of loans and receivables	176	–
Net cash used in investing activities	**(2,533)**	**(4,685)**
Cash flows from financing activities		
Gross repayments from long term borrowing	(100)	(34)
Proceeds from issue of bonds net of issue costs	463	357
Proceeds from issue of shares net of issue costs	241	–
Dividends paid	(459)	(247)
Interest paid	(493)	(237)
Net proceeds from short-term borrowing	267	536
Net cash generated by/(used in) financing activities	**(81)**	**375**
Net increase/(decrease) in cash and cash equivalents	**943**	**(224)**
Effect of exchange rate changes and restatements on cash and cash equivalents	(15)	(70)
Cash and cash equivalents at the beginning of the year	**159**	**453**
Cash and cash equivalents at the end of the year	**1,087**	**159**

The notes on pages 26 to 55 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders			Total attributable to equity holders of the parent £ '000	Mino–rity interest £ '000	**Total Equity £ '000**
	Share capital £ '000	Other reserves £ '000	Retained earnings £ '000			
Balance at 1 January 2006	**4,121**	**5,200**	**3,815**	**13,136**	**246**	**13,382**
Depreciation on revaluation of non–current assets	-	(135)	137	2	-	2
Reduction of revaluation reserve	-	(4)	-	(4)	-	(4)
Decrease of minority interest	-	2	(2)	–	(2)	(2)
Exchange differences on translation to the presentation currency	-	(900)	(665)	(1,565)	(29)	(1,594)
Net income (expense) recognised directly in equity	-	**(1,037)**	**(530)**	**(1567)**	**(31)**	**(1,598)**
Profit for the year	-	-	1,095	1,095	(16)	1,079
Total recognised income and expense for the year	-	**(1,037)**	**565**	**(472)**	**(47)**	**(519)**
Dividends paid	-	-	(247)	(247)	-	(247)
Issue of shares	-	-	-	–	-	-
Share based payments	-	19	-	19	-	19
Exclusion from Group	-	(1)	8	7	-	7
Balance at 31 December 2006	**4,121**	**4,181**	**4,141**	**12,443**	**199**	**12,642**
Depreciation on revaluation of non–current assets	–	(122)	122	–	–	-
Reduction of revaluation reserve	–	(2)	–	(2)	–	**(2)**
Decrease of minority interest	–	–	(10)	(10)	(70)	**(80)**
Exchange differences on translation to the presentation currency	–	(124)	(90)	(214)	(4)	**(218)**
Net income (expense) recognised directly in equity	–	**(248)**	**22**	**(226)**	**(74)**	**(300)**
Profit for the year	–	–	3,256	3,255	6	**3,262**
Total recognised income and expense for the year	-	**(248)**	**3,278**	**3,030**	**(68)**	**2,962**
Dividends paid	–	–	(459)	(459)	–	**(459)**
Issue of shares	43	198	–	241	–	**241**
Reduction of options reserve	–	(71)	71	–	–	-
Balance at 31 December 2007	**4,164**	**4,060**	**7,031**	**15,255**	**131**	**15,386**

The notes on pages 26 to 55 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 4. 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 main activities of the 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.

The Group's main activity is production and distribution of dairy-based food products (butter, cheeses, 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 380 employees and makes use of some 120 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 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" (translated as Our Dairyman), "Narodniy Product" (People's Product) and "Vershkova Dolina" (Creamy Valley). The average number of employees of the Group during the year ended 31 December 2007 was 2,014 (2006: 2,372).

Milk prices in Ukraine

A substantial part of the Group's overall cost base in Ukraine is represented by raw milk – which the Group uses for production of hard cheeses, butter and milk powders. Raw milk prices in Ukraine in the past have experienced significant seasonal variation; however the overall trend of the recent years was an upward price movement. The Group's mitigation measures against this trend have included, historically, the build-up of strong milk catchment areas around the Group's main production plants in Central and Western Ukraine. Whenever and wherever possible, the Group avoided the price competition for milk and milk supplies. Investment in stationary milk-cooling tanks, development of the specialied fleet of milk-carrying vehicles and day-to-day proximity to the populations of the milk-producing regions are the primary instruments for the Group to counter the competition for milk and milk supplies in Ukraine. In the last several years, the Group had no interruptions or shortages in supply of the raw milk and milk supplies to its plants; moreover in 2007 the Group increased the intake of the raw milk by some 15% in comparison to the prior year. The Directors believe that the raw milk prices in Ukraine, after having reached its historical heights in 2007 close to the level of the European producers, are unlikely to rise any further. On the contrary, significant downward adjustment to the price is possible by the mid-2008 as the seasonal upturn in production of milk in Ukraine may coincide with stabilisation of the world export prices for milk powders.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial information are set out below: The policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union.

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 considered 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 2(e)). Since the Ukrainian Hryvna is not a major convertible or recognisable currency outside of Ukraine, and also because the Group's public shareholder base has been located mostly in the UK, the financial information has been translated into British pounds sterling (hereinafter "GBP" or £) at the rates given in note 2(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 2007 were adopted by the Group.

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

The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital. The Group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 January 2007.

– IFRIC 8, Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. There was no impact on the group's accounts from its adoption.

– IFRIC 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires an assessment of 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. There was no impact on the group's accounts from its adoption.

– IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date. There was no impact on the group's accounts from its adoption.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are currently not relevant to the Group.

– 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 a hyperinflationary economy as its functional currency.

The following standards, interpretations and amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the group has decided not to adopt early.

– IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the 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 expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have 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 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.

– IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. Management is currently assessing the impact of IFRIC 13 on the accounts.

– IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. Management is currently assessing the impact of IFRIC 14 on the accounts.

– Revised IFRS 3,Business Combinations and complementary Amendments to IAS 27,'Consolidated and separate financial statements (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments to is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

– Amendment to IFRS 2, Share–based payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

c. Revenue recognition

Revenues arising to the Group as a result of the sale of goods and the rendering of services are recognised in the period to which they relate and measured at the fair value of the consideration received or receivable. 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.

d. Principles of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

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 rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used).

(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 rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used).

(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 2(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.

The Group's assets were revalued in January 2004. With effect from 1 January 2004, the Group took revalued amount as deemed cost on the date of transition for all classes of assets. This change of accounting policy was made on the grounds that management believe that this policy provides more reliable and relevant financial information because it better reflects the value in use of such assets to the 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 retained earnings when freehold land and buildings are expensed through the income statement (e.g. 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 the completion, the group assess whether there is any indication that an asset may be impaired. If any such indication exists, the group performs impairment testing as described in 2(k). In case no indication exists that the asset may be impaired, 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 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 assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is reported in intangible assets with any impairment being charged to the Income Statement within administrative expenses. Goodwill is assessed annually 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 include 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. Where fair value of goods and services received from persons other than employees is difficult to identify, the fair value of the instruments granted is charged to income statement over the vesting period.

o. 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.

p. Short-term employee benefits

Short–term employee benefits are recognised in the period in which an employee has rendered service to the Group. The group recognises the undiscounted amount of short–term employee benefits as a liability (accrued expense), after deducting any amount already paid.

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 rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used). 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, 2007	10.0973	5.0500
Official rate as at December 31, 2006	9.9045	5.0500
Weighted average rate for 2007	10.1124	5.0500
Weighted average rate for 2006	9.3128	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:

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.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group may renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

t. Financial liabilities

The Group classifies its financial liabilities into one of two categories 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 and bonds 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 interest 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 share premium, net of any related tax deduction. Qualifying transaction costs include costs of preparing the prospectus, accounting, tax and legal expenses, underwriting fees and 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.

3. Critical accounting estimates and judgments

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

– Estimates of fair value of property, plant and equipment based on revaluation. The Group is required, periodically as determined by the management, to conduct revaluation of its property, plant and equipment. Such revaluations are conducted by the independent valuers and employ the valuation methods in accordance with International Valuation Standards such as cost method, comparison (market) method and revenue (income) method.

– 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. Further information is contained in note 8.

– 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 life assets, changes to the estimates used can result in significant variations in the carrying value. Further information is contained in notes 7, 8 and 30.

– 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. Further information is contained in notes 10 and 30.

– 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. Further information is contained in notes 9 and 24.

– 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 the Black–Scholes valuation model as on the date of grant based on certain assumptions, such as the expected volatility, expected life of the options and dividend growth rate. Further information is contained in note 25.

– Legal proceedings. In accordance with IFRSs 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.

– Quality claims. The Group supplies the consumers and industrial customers in Ukraine with dairy products manufactured in accordance with the current laws, food safety standards and technical requirements of the relevant Ukrainian authorities. The Group voluntarily applies non-domestic standards – ISO and HASSP – to some of the Group's operations. For the industrial customers both domestically and outside of Ukraine, the food products are manufactured to the technical specifications agreed with the buyers in advance of the sale. In instances where the quality criteria and/or technical specifications are not met or the delivery of products are made close to expiry date, a quality claim may arise and the corresponding contingent liability may be disclosed in the notes to the financial statements. Realisation of any such 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 quality claims requires the Group's management to make determinations about the future matters that may, at the time of determination, be beyond management's control. Among the factors considered in making decisions on quality claims provisions are: the nature of the claim, the quantifiable variances in quality giving rise to a claim, the potential loss from satisfying the claim and any decision of the Group's management as to how it will respond to the claim.

4. Subsidiaries

The consolidated financial statements include the results of the companies set out in table below.

	Country of incorporation	Proportion of the Group's ownership interest		Method of consolidation
		2007	2006	
Molochnik OJSC**	Ukraine	97.6%	97.6%	Acquisition
Starokonstantinovskiy Molochniy Zavod SC**	Ukraine	100%	100%	Acquisition
Starkon-Moloko LLC**	Ukraine	100%	100%	Acquisition
Krasilovsky Molochny Zavod Private Enterprise SC**	Ukraine	100%	100%	Acquisition
Jmerinsky Maslosyrzavod LLC**	Ukraine	100%	100%	Acquisition
Letichevsky Maslozavod OJSC***	Ukraine	92.7%	62.1%	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC**	Ukraine	100%	–	Acquisition
Ukrprodexpo SC**	Ukraine	100%	100%	Acquisition
Ukrprodexport Private Enterprise SC**	Ukraine	100%	–	Acquisition
Ukrproduct-Logistics Private Enterprise SC **	Ukraine	100%	100%	Acquisition
Ukrproduct-Logistic LLC **	Ukraine	100%	–	Acquisition
Agrospetsresursy LLC**	Ukraine	100%	100%	Acquisition
Nash Molochnik Private Enterprise SC*	Ukraine	100%	100%	Acquisition
Ukrevroprodukt SC*	Ukraine	100%	100%	Acquisition
Agrospetsresursy Dnipro SC*	Ukraine	100%	100%	Acquisition
Torgoviy Dom Maslayana SC*	Ukraine	100%	100%	Acquisition
Torgoviy Dom Milko SC*	Ukraine	100%	100%	Acquisition
Agrospetsresursy Lviv SC*	Ukraine	100%	100%	Acquisition
Agrospetsresursy – Kharkov SC*	Ukraine	100%	100%	Acquisition
Ukrproduct Group CJSC	Ukraine	100%	100%	Merger
LinkStar Limited	Cyprus	100%	100%	Merger
Dairy Trading Corporation Limited	BVI	100%	100%	Merger
Ukrproduct Group Ltd	Jersey			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

*** The company is held through Ukrproduct Group CJSC and LinkStar Limited which are 100%-owned subsidiaries of the Company

During the year, the Group's equity stake in Letichevsky Maslozavod OJSC has increased from 62.1% to 92.7% by means of enlargement of the statutory capital from and subscription of the Group's companies – Ukrproduct Group CJSC and LinkStar Limited – to the new shares.

5. Financial instruments – Risk Management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (fair value or cash flow interest–rate risk and foreign exchange risk). In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

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

- trade receivables
- investments in unquoted equity securities in Ukraine
- cash at bank
- bank overdrafts
- trade and other payables
- fixed rate bank loans.

General objectives, policies and processes

The Group's overall risk management programme recognises 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 Chief Financial Officer (CFO) under policies approved by the Board of Directors. The Group CFO 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.

The Board has overall responsibility for the determination of the Group's risk management objectives and polices and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board receives monthly updates from the Group CFO and Head of Internal Audit through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal operating auditors review the risk management policies and processes and report their findings to CEO and the Audit Committee, if and when necessary. The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are laid out below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales to the customers in Ukraine. For foreign customers (export sales) only cash payment in advance of delivery is accepted as the basis for commercial transactions; there have been no exceptions to this rule.

According to the Group's risk assessment policy, implemented locally, every new customer is appraised before entering contracts; trading history and the strength of the own balance sheet being the main indicators of creditworthiness. While starting the commercial relationship with the Group, a new customer is offered the terms that are substantially tighter than those for the existing customers and stipulate, as a rule, the cash–on–delivery payments terms and no–returns policy (quality–related claims exempted). If the relationship progresses successfully, the terms are gradually relaxed to fall in line with the Group's normal business practices and local specifics as required by the market. The Group's periodic review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from CEO. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only.

Quantitative discloses of the credit risk exposure in relation to Trade and other receivables, which are neither past due nor impaired, are made in note 11. The Group does not rate trade receivables by category or recoverability as the Group's historical default rates have been negligible in the past (less than 0.01%); essentially all trade receivables due to the Group had been recovered. In the future, the default rate on trade receivables overdue is expected to remain stable or even fall because in Ukraine the Group deals increasingly with the modern–format retailers whose creditworthiness is conducive to the payment discipline.

Maximum exposure to the Trade and other receivables component of credit risk at the reporting date is the fair value of Trade and other receivables (reported in note 11). There is no collateral held as security or other credit enhancements.

The Group's credit controllers monitor the utilisation of the credit limits on a daily basis by customer and apply the delivery stop orders immediately if the individual limits are exceeded. The Group's procedure for recovery of the trade receivables past due includes the following steps:

- identification of the date and exact amount of the receivable past due, termination of all further deliveries and forwarding to the customer of the details of the amount due and the notice of the failure to pay – 3 days after the past due date
- delivery to the customer of the formal claim for the amount overdue and the visit of the representative of the commercial credit control department to the customer premises– 2 weeks thereafter
- filing a claim to the commercial court for repayment of the amount overdue and late payment fees – 2 weeks thereafter
- obtaining a court order for repayment of the amount due and collaboration with bailiff – 2 weeks thereafter.

Credit risk also arises from the Group's investments in unquoted equity securities in Ukraine. The Group currently holds the unlisted investment certificates of the closed–end venture fund "Dovira–Capital" created mainly for the purposes of tax–efficient potential acquisitions by the Group in Ukraine. The instruments, in accordance with the Ukrainian securities law, are neither equity nor debt as they confer the share of ownership in the future acquisition fund but do not create a conventional equity stake. Equally, the certificates are not equivalent to the bank loans as they do not carry the obligatory interest payments. In the past year, the Group reduced the exposure to these instruments; further details are provided in note 12. It is expected that in the future the investment in certificates will be further reduced as the acquisition opportunities in Ukraine could be funded via direct equity investment.

Maximum exposure to the Group's investments in unquoted equity securities component of credit risk at the reporting date is the fair value of such securities (reported in note 12). There is no collateral held as security or other credit enhancements.

A separate credit risk stems from the loans by the Group to the employees. Historically, the Group has had a very limited amount of such transactions. Note 13 details the Group's transactions and outstanding balances with the employees. Maximum exposure to the Group's loans to the employees at the reporting date is the fair value of the balances due from the employees (reported in note 13). There is no collateral held as security or other credit enhancements for such loans.

Cash and cash equivalents and deposits with banks and financial institutions also give a rise to credit risk. While the Group undertakes, at all times, to assess the quality and creditworthiness of the banks it deals with in Ukraine and abroad, the risk of a bank defaulting on its obligations to the Group remains material, in the Group's view. This risk is partially mitigated by the Group's policy of dealing only with the largest banks in Ukraine (Top 10) at which the Group has the open credit lines. Further, the credit risk in dealing with the Ukrainian banks is offset by the Group's long–term practice of keeping the minimum cash balances on the current accounts; substantially all of the Group's funds are invested in operations at any given time. The Group does not hold any term deposits with the Ukrainian or foreign banks.

Maximum exposure to the cash and cash equivalents and deposits with banks and financial institutions component of credit risk at the reporting date is the fair value of the cash balances due from such banks and financial institutions (reported in note 31). There is no collateral held as security or other credit enhancements.

Credit risk may also arise from overdrafts and fixed rate bank loans provided to the Group by the Ukrainian banks. This risk relates to a financial loss to the Group that may be inflicted by the banks' inability or unwillingness to supply the funds at the previously agreed fixed interest rate. In this case, the Group could find itself in a position of having to change the bank(s) at a short notice thus incurring the significant extra costs such as the new banks' fixed commissions and increased interest rate on the loans. The Group's policy to mitigate such risk is to collaborate, on the on–going basis, with a number of the banks in Ukraine with the open back–up loan facilities thereby avoiding the reliance on a single provider of debt finance. The details of the Group overdrafts and fixed rate loans are provided in note 15.

Maximum exposure to the overdrafts and fixed rate component of credit risk at the reporting date is estimated at £84,000 or 2% of the outstanding balances of such instruments at the reporting date (reported in note 15). There is no collateral held as security or other credit enhancements.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

As a result of the credit control and risk assessment procedures, the Group does not expect any losses from non–performance by the counterparties at the reporting date from any of the financial instruments currently employed in the business.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its current financial obligations as they fall due and this may affect adversely the Group's on–going operations and performance. 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 CFO aims to maintain flexibility of funding by keeping the committed credit facilities available.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain the minimum cash balances and agreed overdraft facilities to meet expected liquidity requirements as they fall due. The group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on substantially all of its long–term borrowings, this is further discussed in the 'interest rate risk' section below.

The Group's operating divisions (plants) have different liquidity requirement profiles. Certain products (e.g. soft cheese, butter and skimmed milk) have a short–cycled production of 48 hours while the others (hard cheese, in particular) require working capital committed for longer periods, usually up to 30–45 days. These differences give rise to the necessity to manage the mix of the Group's overall liquidity centrally but with strong emphasis on the liquidity requirements of specific products produced at different plants. Consequently, the liquidity risk of each plant is monitored and managed centrally by the Group Treasury function. Each plant has a cash facility with the Group Treasury, the amount of the facility based on cash budgets. The cash budgets are set locally and agreed by the Group CFO in advance thus enabling the Group's overall cash requirement to be anticipated. Where facilities of the plants need to be increased, approval is sought from the Group CFO.

CEO (and the Board, if requested) receives rolling quarterly cash flow projections on a monthly basis as well as information regarding the daily cash balances at each plant and overall. In the ordinary course of business, the Group relies on a combination of the available overdraft facilities and cash balances to fund the on–going liquidity needs. Capital expenditures are usually funded though longer–term bank loans. In case of the inadequate cash balances and the overdraft facilities close to the agreed ceilings, the Group is expected to revert to the emergency funding made available through temporary freeze to the current portion of capital spending, immediate operating cost reductions, postponement of payments to the third parties, and expansion of the overdraft ceilings. Although undesirable and never occurring in the past, such emergency funding is the last resort on which the Group may have to draw while ensuring the ongoing continuity of the business.

Market risk

Market risk may arise from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk). As at 31 December 2007, the Group had no investments in such instruments (2006: nil).

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 2007, all borrowings were at fixed rates (note 15).

The group analyses the interest rate exposure on a monthly basis. A sensitivity analysis is performed by applying various interest rate scenarios to the borrowings at fixed rates. Various methods and assumptions are used in the analysis, in particular the likelihood of the change in interest rates, supplementary (alternative) funding and the cost of arranging the back–up funding facilities. Based on the sensitivity analysis performed, the maximum exposure (impact on profit or loss and net assets) of a 200 basis–point shift (being the maximum reasonably possible expectation of changes in interest rates) would be an increase of £79,000 (2006: £69,000) or a decrease of £79,000 (2006: £69,000).

Foreign exchange risk

Although the Group considers itself an international operator, all of the Group's manufacturing facilities are located in one country, Ukraine whose currency Hryvna has been stable vis–a–vis the US Dollar for the last eight years. All purchases of the raw milk, semi–

processed materials and other components of the manufacturing cost are made in Ukraine and denominated in Hryvnas. All outstanding balances of accounts payable by the Group are in Hryvnas.

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 powders 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 policy; this is expected to continue in the future. Similarly, the Group has never been engaged in transactions for forward delivery and does not expect to conduct these transactions in the future. The Directors believe that these policies effectively eliminate the foreign exchange risk for the Group. 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 stable in recent years; the directors have no reason to believe that this is likely to change in the future.

The management thus believes that the foreign exchange risk is immaterial at present and is likely to remain so in the future. No sensitivity analysis is required under circumstances.

Capital disclosures

The Group's definition of the capital is an ordinary share capital, share premium, accumulated retained earnings and other equity reserves. The Directors view their role as that of corporate guardians responsible for preservation and growth of the capital, as well as for generation of the adequate returns to shareholders.

The Group's objectives when maintaining and growing capital are:

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,
– to control for and mitigate the risks imposed by the operating and competitive environment on the Group's asset base thereby preserving the integrity and manufacturing capacity of the Group's operations, and.
– to provide an adequate return to shareholders by delivering the products in demand by the customers at prices commensurate with the level of risk and expectations of shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the current trading environment. The Group's core assets consist predominantly of the property, plant and equipment – the resources that have proven their ability to withstand the competitive erosion and inflationary pressure. This fixed asset base is supplemented by intangible assets, represented mainly by trademarks and customer lists. These assets, albeit in a less visible way, provide a vital support to the Group's core manufacturing assets by ensuring the continuing cash inflows and price premiums on the Group's products.

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the amount of dividends paid to shareholders, repay the debt, return capital to shareholders or sell assets to improve the cash position. Historically, the first three methods were used to achieve and support the desired capital structure. The Group monitors capital on the basis of the net debt to equity ratio (D/E ratio). This ratio is calculated as net debt to shareholder equity. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Shareholder equity comprises all components of equity i.e. share capital, share premium, minority interest, retained earnings, and revaluation reserve.

Traditionally, the Group's conservative strategy was to maintain the D/E ratio at 0.6 (60%) maximum. In 2007, as well as in the prior years, the D/E ratio did not exceed this level. The Directors believe that for the Group, as an operating company and a public entity, the maintenance of the prudent debt policy is crucial in preserving the capital of the business. Excessive leverage – defined by the Group as D/E ratio in excess of 0.6 – could be justified only under exceptional circumstances and requires the full Board's consent.

The D/E ratios at 31 December 2007 and at 31 December 2006 were as follows.

	As at 31 December 2007 **£ '000**	**As at 31 December 2006** **£ '000**
Total debt	4,218	3,637
Less: Cash and cash equivalents	1,087	159
Net debt	3,131	3,478
Total equity	15,324	12,443
D/E ratio	**20.4%**	27.9%

The decrease in the D/E ratio during 2007 resulted primarily from the increase in shareholder equity (retained earnings) caused by the Group's success in generating operating profits in that year. As a result of this increase in shareholder equity, some reduction in net debt and improved profitability, the interim dividend payment was increased to £251,000 (2006: £41,000 – note 27).

6. Segment information

At 31 December 2007, the Group was organised internationally into three main business segments:

(1) Cheese;
(2) Butter; and
(3) Milk powders.

The segment results for the year ended 31 December 2007 are as follows:

£ '000	Cheese	Butter	Milk powders	Total dairy	Transport services	Resale of third–party goods	Un–allocated	Total
Sales, Total	**32,180**	**40,794**	**35,805**	**108,779**	**3,172**	**11,888**	**-**	**123,839**
Sales to internal customers	20,023	27,796	15,395	63,214	2,513	10,002	–	75,729
Sales to external customers	12,157	12,998	20,410	45,565	659	1,886	–	48,110
Gross profit	**2,793**	**3,470**	**3,804**	**10,067**	**192**	**199**	**-**	**10,458**
Administrative expenses	(1,003)	(810)	(335)	(2,148)	(49)	–	(573)	(2,770)
Selling and distribution expenses	(1,119)	(932)	(75)	(2,126)	(51)	–	(742)	(2,919)
Other operating income / expenses	–	–	–	–	–	–	(604)	(604)
Income / loss from exchange differences	–	–	–	–	–	–	(15)	(15)
Profit before interest and taxation	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(1,934)**	**4,150**
Finance expenses	–	–	–	–	–	–	(493)	(493)
Finance income	–	–	–	–	–	–	20	20
Profit before taxation	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(2,407)**	**3,677**
Taxation	–	–	–	–	–	–	(415)	(415)
Profit for the year	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(2,822)**	**3,262**
Segment assets	11,522	5,324	3,780	20,626	206	312	–	21,144
Unallocated corporate assets	–	–	–	–	–	–	2,470	2,470
Unallocated deferred tax	–	–	–	–	–	–	51	51
Consolidated total assets	**11,522**	**5,324**	**3,780**	**20,626**	**206**	**312**	**2,521**	**23,665**
Segment Liabilities	497	636	1,288	2,421	74	197	–	2,692
Unallocated corporate liabilities	–	–	–	–	–	–	4,835	4,835
Unallocated deferred tax	–	–	–	–	–	–	752	752
Consolidated total liabilities	**497**	**636**	**1,288**	**2,421**	**74**	**197**	**5,587**	**8,279**
Other segment information:								
Depreciation and amortisation	671	327	274	**1,272**	31	–	68	**1,371**
Capital expenditure	1,635	408	444	**2,487**	119	–	70	**2,676**

The unallocated corporate liabilities represent bank loans overdrafts, bonds and accruals.

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 for the year ended 31 December 2006 were as follows:

£ '000	Cheese	Butter	Milk powders	Total dairy	Transport services	Resale of third–party goods	Unallocated	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)
Income / loss from exchange differences	-	-	-	-	-	-	(20)	(20)
Profit before interest and taxation	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,367)**	**1,435**
Finance expense	-	-	-	-	-	-	(237)	(237)
Finance 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 unallocated corporate liabilities represent bank loans overdrafts, bonds and accruals.

Secondary reporting format – geographical segments:

Sales by country	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Ukraine	32,127	28,459
Denmark	3,658	1,623
Holland	3,432	332
Japan	2,322	122
Germany	1,085	683
North Korea	872	–
Azerbaijan	641	339
Turkey	546	–
Saudi Arabia	538	–
Algeria	422	–
Other countries	2,467	3,495
Total	**48,110**	**35,053**

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.

7. 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 2007	**2,841**	**6,012**	**4,027**	**3,096**	**15,976**
Additions	2,611	–	–	61	**2,672**
Transfers to/from AUC	(4,816)	2,040	1,847	929	-
Exclusion from Group	–	(35)	(2)	(51)	**(88)**
Disposals	–	(10)	(49)	(209)	**(268)**
Exchange differences on translation to the presentation currency	(58)	(112)	(75)	(56)	**(301)**
Closing balance	**578**	**7,895**	**5,748**	**3,770**	**17,991**
Accumulated depreciation					
Opening balance at 1 January 2007	-	**1,929**	**1,489**	**1,693**	**5,111**
Depreciation charge	–	262	551	496	**1,309**
Exclusion from Group	–	(3)	–	(38)	**(41)**
Disposals	–	(1)	(41)	(154)	**(196)**
Exchange differences on translation to the presentation currency	–	(36)	(28)	(31)	**(95)**
Closing balance	-	**2,151**	**1,971**	**1,966**	**6,088**
Net book amount at 31 December 2007	**578**	**5,744**	**3,777**	**1,804**	**11,903**
Cost or valuation					
Opening balance at 1 January 2006	**1,014**	**6,339**	**3,666**	**3,123**	**14,142**
Additions	4,040	–	–	50	**4,090**
Transfers to/from AUC	(1,963)	514	961	488	-
Disposals	–	(26)	(93)	(154)	**(273)**
Exchange differences on translation to the presentation currency	(250)	(815)	(507)	(411)	**(1,983)**
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**
Net book amount at 1 January 2006	**1,014**	**4,350**	**2,448**	**1,716**	**9,528**

Fixed assets with a net book value of £7,189,696 at 31 December 2007 (£5,680,555 at 31 December 2006) were pledged as collateral for loans.

The assets of the Group were last revalued in 2005 at the effective valuation date of 31 December 2004. The valuation included a combination of different methods used by two independent appraisers: 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.

8. Intangible assets

	Computer software £ '000	Trade–marks £ '000	Customer list £ '000	Goodwill £ '000	Total £ '000
Cost or valuation					
At 1 January 2007	**25**	**369**	**752**	**184**	**1,330**
Additions	4	–	–	–	**4**
Reduction in goodwill corresponding to decrease in external minority equity stakes	–	–	–	(80)	**(80)**
Exchange differences on translation to the presentation currency	–	(7)	–	–	**(7)**
At 31 December 2007	**29**	**362**	**752**	**104**	**1,247**
Accumulated amortisation					
At 1 January 2007	**14**	**35**	**44**	-	**93**
Amortisation charge for the year	6	18	38	–	**62**
Exchange differences on translation to the presentation currency	1	(1)	(1)	–	**(1)**
At 31 December 2007	**21**	**52**	**81**	-	**154**
Net book amount at 31 December 2007	**8**	**310**	**671**	**104**	**1,093**
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**
Net book amount at 1 January 2006	**11**	**392**	**746**	**184**	**1,333**

The remaining amortisation periods of the intangible assets are as follows:

Computer software	5–10 years;
Trademarks	18 years;
Customer list	18 years.

Goodwill impairment test

Upon performing an annual impairment review for the carrying amount of the goodwill at 31 December 2007, no goodwill write–off was recorded. The entire amount of the carrying value of the goodwill of £104,000 is attributed to Letichevsky Maslozavod OJSC. Key assumptions upon which the management based the assessment of the carrying value of the goodwill were, firstly, the continuing value from the plant in securing the milk supply zone from the competitors (the "physical presence competitive defense assumption") and, secondly, a cluster of the continuing relevant dairy expertise existing 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: £80,000 – to physical presence competitive defense assumption and £24,000 – to relevant expertise assumption. The period over which value was attributed to each assumption was under five years although it is the management's view that the assumption might be valid in a longer 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 85% of the entire milk comes from the individual households, the existing supplier base is crucial 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).

The asset "Customer List" was assigned a useful life of 20 years on the basis of the recurring nature (daily milk collection) and non–diminishing value (captivity of the individual households) of the asset. Factors that the management took into consideration while arriving at this analytical conclusion were as follows. The milk–producing customer base in the vicinity of the two plants has been in existence for at least hundred years, of which some 50–60 years the area was known for production of the dairy products including raw milk. The recorded statistical evidence of the milk production of the recent years (1990–2008, State Committee for Statistics of Ukraine) shows that the milk production by the households continues at a healthy rate albeit unevenly on a year–by–year basis. At present, the management believes that all grounds exist for continuation of the milk production in the area at least at the present rate. Therefore the life of 20 years appears reasonable for this asset.

9. Deferred tax

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Deferred tax asset at the beginning of the period	**(42)**	(90)
Deferred tax liability at the beginning of the period	**767**	989
Deferred tax recognised in income statement during the year	40	(18)
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortisation	(57)	(47)
Exclusion from Group	6	–
Exchange differences on translation to the presentation currency	(13)	(109)
Deferred tax asset at the end of the period	**(51)**	(42)
Deferred tax liability at the end of the period	**752**	767

The tax rate used in deferred tax calculations is 25% (2006: 25%).

10. Inventories

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Raw materials	1,053	714
Finished goods	2,299	1,308
Other inventories	656	628
	4,008	**2,650**

As at 31 December 2007 inventories with a value of £1,013,268 were pledged as collateral for the loan received from OTP Bank Ukraine (£700,142 at 31 December 2006).

11. Trade and other receivables

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Trade receivables	3,771	2,851
Other receivable	936	440
Prepayments	432	419
	5,139	3,710

The Group's management believes that fair value is a reasonable approximation of carrying value for trade and other receivables.

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

Maturity of trade and other receivables

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
In less than 1 year	**5,139**	3,710
In more than one year but not more than two years	-	–
In more than two years but not more than five years	-	–
In more than five years	-	–
	5,139	3,710

As at 31 December 2007 there were no trade and other receivables past due not impaired (2006: nil).

12. Other loans and receivables

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 2007 £ '000	Total as at 31 December 2006 £ '000
UAH	-	**108**	108	244
USD	-	-	-	-
EUR	-	-	-	-
	-	**108**	**108**	244

Fair values

The book value and fair value of available for sale investments are as follows.

	Book value as at 31 December 2007 £ '000	Fair value as at 31 December 2007 £ '000	Book value as at 31 December 2006 £ '000	Fair value as at 31 December 2006 £ '000
Other investments	**108**	**108**	244	244
	108	**108**	244	244

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

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Other listed and non–listed investments (less than 5% holding)	108	244
	108	244

Financial assets comprise the unlisted certificates of the closed–end venture fund "Dovira–Capital" created in 2006 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 (£24,759 in 2007; £159,221 in 2006).

As at 31 December 2007, no financial assets were past due or impaired (2006: nil).

13. Other financial assets

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
VAT receivable	247	103
Prepaid profit tax	3	4
Loans issued to employees	26	9
	276	116

Loans issued are denominated in Hryvna, are short term in nature, and are interest free. Loans are issued to Group employees (2005: £4,000 to Group employees).

14. Cash and cash equivalents

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Cash – in UAH	10	7
Bank – in UAH	234	100
Bank – in foreign currency	843	52
	1,087	**159**

15. Borrowings

Long term loans

In 2007 the long term loans in the amount of £101,644 as at 31 December 2006 were repaid. The balance of the long term loans as at 31 December 2007 was nil.

Current portion of long-term liabilities

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Bonds	**811**	353
Other loans	-	36
	811	389

In 2007, Agrospetsresursy LLC placed bonds denominated in Hryvna in the total amount of £810,617. The bonds bear an interest of 14.0 % (2006: 15.0 %) and mature on 7 March 2008.

Bank loans and overdrafts

Bank loans include a secured 3-year credit line of up to UAH 40,000,000 (£4,000,000) from OTP Bank CJSC (former "Raiffeisen Bank Ukraine") denominated in Ukrainian Hryvna (UAH). As at 31 December 2007 an amount of £3,406,868 was drawn from this credit line (2006: £3,124,045). The average interest rate as at 31 December 2007 was 14.5% (2006: 14.5%). This loan is secured by the assets of OJSC Molochnik, Starokonstantinovskiy Molochniy Zavod SC and Starkon-Moloko LLC.

Maturity of financial liabilities – borrowing facilities

The carrying amounts of financial liabilities are reported in the following table.

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
In less than 1 year	**4,218**	2,727
In more than one year but not more than two years	-	910
In more than two years but not more than five years	-	–
In more than five years	-	–
	4,218	3,637

Interest rate profile of financial liabilities – borrowing facilities

The Group's has borrowing facilities available at 31 December 2007 in which all conditions have been met.

	Floating rate £ '000	Fixed rate £ '000	Total as at 31 December 2007 £ '000	Total as at 31 December 2006 £ '000
Expiry within 1 year	-	**4,218**	**4,218**	2,727
Expiry within 1 and 2 years	-	-	-	910
Expiry in more than 2 years	-	-	-	–
	-	**4,218**	**4,218**	3,637

Currency profile of financial liabilities – borrowing facilities

The currency profile of the Group's financial liabilities is as follows.

	Floating rate liabilities £ '000	Fixed rate liabilities £ '000	Total as at 31 December 2007 £ '000	Total as at 31 December 2006 £ '000
UAH	-	**4,218**	**4,218**	3,601
USD	-	-	-	36
EUR	-	-	-	-
	-	**4,218**	**4,218**	3,637

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

	Book value as at 31 December 2007 £ '000	Fair value as at 31 December 2007 £ '000	Book value as at 31 December 2006 £ '000	Fair value as at 31 December 2006 £ '000
Bank loans	**3,407**	**3,407**	3,124	3,124
Bank overdrafts	-	-	22	22
Bonds	**811**	**811**	353	353
Long–term loans	-	-	102	102
Other financial liabilities	-	-	36	36
	4,218	**4,218**	3,637	3,637

16. Uncancellable lease commitments

As at 31 December 2007, the operating lease commitments on uncancellable lease for all the companies included into the consolidation totaled £38,500 (2006: £32,000).

Maturity analysis of uncancellable lease commitments

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Not later than 1 year	**39**	32
Later than one year but not later than five years	-	–
Later than five years	-	–
	39	32

Uncancellable lease commitments represented rents of office,

17. Trade and other payables

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Trade payables	1,395	1,325
Other payables	385	233
Prepayments	1,033	116
Accruals	398	252
VAT and other taxation payable	28	27
	3,239	**1,953**

The Group's management believes that fair value is a reasonable approximation of carrying value for trade and other payables.

18. Share capital

	Authorised			
	As at 31 December 2007 Number '000	**As at 31 December 2007** £' 000	**As at 31 December 2006 Number '000**	**As at 31 December 2006** £' 000
Ordinary shares of 10p each	50,000		50,000	
		5,000		5,000

	Allotted, called up and fully paid at beginning and end of the year			
	2007 Number '000	**2007** £' 000	**2006 Number '000**	**2006** £' 000
Ordinary shares of 10p each				
At beginning of the year	41,215	4,121	41,215	4,121
Shares issued on exercise of the options	430	43	–	–
At end of the year	41,645	4,164	41,215	4,121

19. 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.

	2007 Weighted average exercise price (£)	2007 Number	2006 Weighted average exercise price (£)	2006 Number
Outstanding at beginning of the year	0.535	1,302,896	0.535	1,302,896
Exercised during the year	0.535	130,000	-	-
Outstanding at the end of the year	0.535	1,172,896	0.535	1,302,896

The average share price at the date of exercise of the warrants in 2007 was 90 pence.

At 31 December 2007 1,172,896 warrants were exercisable (2006: 1,302,896).

20. Other reserves

	Share premium £ '000	Merger reserve £ '000	Share option reserve £ '000	Translation reserve £ '000	Revaluation reserve £ '000	Total other reserves £ '000
Balance at 1 January 2006	**3,918**	**(1,426)**	**196**	**261**	**2,251**	**5,200**
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**
Issue of shares	198	–	–	–	–	198
Reduction of options reserve	–	–	(71)	–	–	(71)
Depreciation on revaluation of property, plant and equipment	–	–	–	–	(122)	(122)
Reduction of revaluation reserve	–	–	–	–	(2)	(2)
Exchange differences on translation to the presentation currency	1	–	(1)	(89)	(35)	(124)
Balance at 31 December 2007	**4,117**	**(1,427)**	**144**	**(459)**	**1,685**	**4,060**

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.
evaluation	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 the foreign exchange differences arising from the translation from functional into presentational currency.
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.

21. Expenses by nature

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Raw materials and consumables used, cost of goods sold	31,991	24,080
Wages and salaries	3,460	3,227
Social security costs	1,112	1,152
Deprecation of property, plant and equipment	1,309	1,295
Amortisation of intangible assets	62	64
Operating lease expense (Property)	352	481
Write-down of inventory to net realisable value	–	47
Other (sale of equity stake)	22	–
Loss on disposal of fixed assets	42	16
Exchange difference	15	20
Other expenses	5,595	3,236
Total cost of goods sold, marketing and distribution costs and administrative expenses	**43,960**	**33,618**

22. Finance income and expense

Recognised in profit or loss

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Finance income		
Interest income on loans to related parties	**20**	–
Total finance income calculated using effective interest method	**20**	–
Finance expense		
Interest expense on bank loans	**(407)**	(121)
Interest expense on bonds	**(84)**	(113)
Other finance expense	**(2)**	(3)
Total finance expense calculated using effective interest method	**(493)**	(237)
Net finance expense recognised in profit or loss	**(473)**	(237)

23. Employee benefit expense

	As at 31 December 2007, £ '000	As at 31 December 2006 £ '000
Short term employee benefits		
Wages and salaries (including key management personnel)	3,460	3,227
Social security costs	1,112	1,152
	4,572	**4,379**

Remuneration of key management personnel

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Salaries	227	219
Share-based payments	-	32
Bonuses	155	30
	382	**281**

The key management personnel are all directors of the Company (Ukrproduct Group Ltd).

24. Income tax expense

Income tax comprised the following:

	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Current tax charge – Ukraine	426	184
Current tax charge – non–Ukraine	6	-
Deferred tax relating to the origination and reversal of temporary differences	(17)	(65)
Income tax charge for the year	**415**	**119**

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% (2006: 25%).

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Profit before tax – Ukraine	1,058	244
Profit before tax – non–Ukraine	2,619	954
	3,677	**1,198**
Tax calculated at domestic tax rates applicable to profits in the relevant countries	271	80
Expenses not deductible for tax purposes	144	39
Tax charge	**415**	**119**

The numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate(s) is provided in the following table.

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Profit before tax:		
Ukraine	1,058	244
Cyprus	65	186
Other (BVI, Jersey)	2,554	768
Profit before tax, total	**3,677**	**1,198**
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (25%)	265	61
Cyprus (10%)	6	19
BVI, Jersey (0%)	–	–
	271	**80**
Net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	144	58
Cyprus	–	–19
BVI, Jersey	–	–
	144	**39**
Tax charge		
Ukraine	409	119
Cyprus	6	–
BVI, Jersey	–	–
	415	**119**
The weighted average applicable tax rate		
Ukraine	25%	25%
Cyprus	10%	10%
BVI, Jersey	Nil	Nil
	7.4%	**6.7%**

The weighted average applicable tax rate was 7.4% (2006: 6.7%). 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.

25. 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.

	2007 Weighted average exercise price (£)	**2007 Number**	**2006 Weighted average exercise price (£)**	**2006 Number**
Outstanding at beginning of the year	0.570	912,028	0.535	912,028
Granted during the year	-	-	-	
Forfeited during the year	-	-	-	
Exercised during the year	0.570	300,000	-	-
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	0.570	612,028	0.570	912,028
Exercisable at the end of the year	0.570	612,028	0.570	912,028

The fair value of the options granted in 2005 was £95,336. No additional charge was recognised in income statement is respect of share based payment in 2007 as all the options and warrants in issue vested in 2006 (2006: £19,336). The average share price at the date of exercise of the options in 2007 was 94 pence.

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.

26. 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 £0.57. The warrants were granted to the Company's Brokers on 31 January 2005 and are exercisable until 11 February 2008 at the price of £0.535.

	31 December 2007	31 December 2006
Net profit attributable to ordinary shareholders, £'000	3,256	1,095
Weighted number of ordinary shares in issue	41,644,953	41,214,953
Basic earnings per share, pence	7.8	2.6
Weighted number of WH Ireland warrants in the money	1,172,896	–
Weighted number of Directors' option shares in the money	612,028	–
Diluted average number of shares	43,429,877	41,214,953
Diluted earnings per share, pence	7.5	2.6

As at 31 December 2007, there were no non–dilutive options or warrants in issue (2006: 2,214,924).

27. Dividends

As at 22 April 2008, the Board of Directors proposed the final dividend payment of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2008 to the shareholders on the register as at 6 June 2008. 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 2007 £ '000	Year ended 31 December 2006 £ '000
Final dividend for 2006 of 0.51 pence (2005 – 0.50 pence) per ordinary share proposed and paid during the year relating to the previous year's results	210	206
Interim dividend of 0.60 pence (2006 – 0.10 pence) per ordinary share paid during the year	251	41
Total	**461**	**247**

The directors are proposing a final dividend of 0.82 pence (2006 – 0.51 pence) per share totalling £350,000 (2006: £210,000). This dividend has not been accrued at the balance sheet date.

28. Minority interest

	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Balance at 1 January	**199**	**246**
Net profit for the period	**6**	**(16)**
Decrease of minority interest	**(70)**	**(2)**
Exchange differences on translation to the presentation currency	**(4)**	**(29)**
Balance at 31 December	**131**	**199**

As at 31 December 2007 a minority interest of 2.40% (2006: 2.40%) was held in Molochnik OJSC, and 7.3% was held in Letichevsky Maslozavod OJSC (2006: 37.85%).

29. 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 other related parties (directors and shareholders) are set out below. Remuneration of key management personnel is disclosed in note 23.

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 2007 £ ‘000	Year ended 31 December 2006 **£ ‘000**
Sales	**374**	40
Purchases	**370**	47
Interest received	**20**	-
Loans	**405**	-
Repayment of loans	**405**	-

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

	As at 31 December 2007 £ ‘000	As at 31 December 2006 **£ ‘000**
Receivables and prepayments	**190**	**221**
Trade and other payable	**(31)**	**(41)**

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

In 2007, the Group’s commercial relationships with the related parties comprised sales, purchases, provision and repayment of loans. 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.

30. Currency analysis

Currency analysis for the period ended 31 December 2007 is set out below:

£ '000	UAH	USD	RUR	GBP	EUR	Total
Non-Current Assets						
Property, Plant and equipment	11,880	23	–	–	–	11,903
Intangible assets	10	309	–	774	–	1,093
Loans and receivables	83	25	–	–	–	108
Deferred tax assets	51	–	–	–	–	51
Current assets						
Inventories	4,008	–	–	–	–	4,008
Trade and other receivables	4,951	170	–	7	11	5,139
Other Financial Assets	276	–	–	–	–	276
Cash and cash equivalents	244	197	–	645	1	1,087
Total assets	**21,503**	**724**	**-**	**1,426**	**12**	**23,665**
Non-Current Liabilities						
Long–term loans	–	–	–	–	–	–
Deferred tax liabilities	752	–	–	–	–	752
Current Liabilities						
Bank loans and overdrafts	3,407	–	–	–	–	3,407
Trade and other payables	1,835	937	13	454	–	3,239
Bonds	811	–	–	–	–	811
Current income tax liabilities	70	–	–	–	–	70
Total Liabilities	**6,875**	**937**	**13**	**454**	**-**	**8,279**

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
Loans and receivables	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 equivalents	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 payables	1,718	94	11	33	97	1,953
Bonds	353	36	-	-	-	389
Current income tax liabilities	23	1	-	-	-	24
Total Liabilities	**6,109**	**131**	**11**	**33**	**97**	**6,381**

31. Notes supporting the consolidated cash flow statement

Cash and cash equivalents for purposes of the cash flow statement comprise:

	As at 31 December 2007 £ '000	As at 31 December 2006 £ '000
Cash available on demand	1,087	159
	1,087	159

In the period under consideration, there were no non–cash transactions (2006 – nil).

32. Post balance sheet events

In the period from 1 January 2008 to 11 February 2008, the Company's broker WH Ireland exercised the remaining 1,172,896 warrants granted at the admission to the Alternative Investment Market of the London Stock Exchange on 11 February 2005. The exercise price of the warrants was 53.5 pence. The average share price within the period of exercise was 77 pence. As at 22 April 2008 no warrants remained in issue.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting ("AGM") of Ukrproduct Group Ltd will be held on Tuesday 24 June 2008 at 10 am at the offices of CJSC Ukrproduct Group, 14th Floor, 39–41 Shota Rustaveli Street, 01033 Kyiv, Ukraine for the purposes of considering and, if thought fit, passing the following ordinary resolutions.

1. To receive and approve the Directors' Report and Consolidated Financial Statements of the Group for the year ended 31 December 2007.

2. To receive and approve the Financial Statements of the Company for the year ended 31 December 2007.

3. To receive and approve the Remuneration Committee Report.

4. 4. To approve the payment of a dividend of 1.4 pence per ordinary share, to be paid on 30 June 2008 to shareholders whose names appear on the register of members when this resolution is passed.

5. To re-elect Jack Rowell non-executive Director and Chairman of the Company with effect from the date of the AGM in accordance with Clause 17.2(a) of the Articles of Incorporation of the Company.

6. To re-elect Sergey Evlanchik Executive Director of the Company with effect from the date of the AGM in accordance with Clause 17.2(a) of the Articles of Incorporation of the Company.

7. To re-elect Dmitry Dragun Executive Director of the Company with effect from the date of the AGM in accordance with Clause 17.2(a) of the Articles of Incorporation of the Company.

8. To re-elect Alexander Slipchuk Executive Director of the Company with effect from the date of the AGM in accordance with Clause 17.2(a) of the Articles of Incorporation of the Company.

9. To authorise the Directors, subject to a satisfactory fee arrangement, to reappoint BDO Stoy Hayward LLP as auditors to the Company to hold office for the financial year 2008 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 JE4 8PP
Channel Islands
22 April 2008

NOTES

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

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

3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders must be entered on the Company's share register at 6.00 pm on Monday 23 June 2008 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

Company details
Ukrproduct Group Ltd, registered number 88352, registered address 26 New Street, St Helier, Jersey JE4 8PP.

Financial Calendar

31 December 2007	Financial year end
23 April 2008	Announcement of preliminary results
24 June 2008	Annual General Meeting
30 June 2008	Final Dividend Payment
30 September 2008	Announcement of interim results
31 December 2008	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 6 June 2008. 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
Bedell Secretaries Limited
PO Box 75, 26 New Street, St Helier, Jersey JE4 8PP, Channel Islands
Tel: +44 1534 814 876 Fax: +44 1534 814 815
E-mail: jean.walsh@bedellgroup.com, dmitry.dragun@ukrproduct.com

Analysis of Shareholders

Size of shareholding	Number of holders	% of total	Total holding '000	% of total
Up to 5,000 shares	51	46.4%	101	0.2%
5,001 to 50,000 shares	34	30.9%	582	1.3%
50,001 to 200,000 shares	12	10.9%	1,736	4.1%
Over 200,000 shares	13	11.8%	40,399	94.4%
Total	110	100%	42,818	100%

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 22 April 2008, 67.5% of the common shares of the company.