UKRPRODUCT GROUP
Annual Report
2008

May, 2009

UKRPRODUCT

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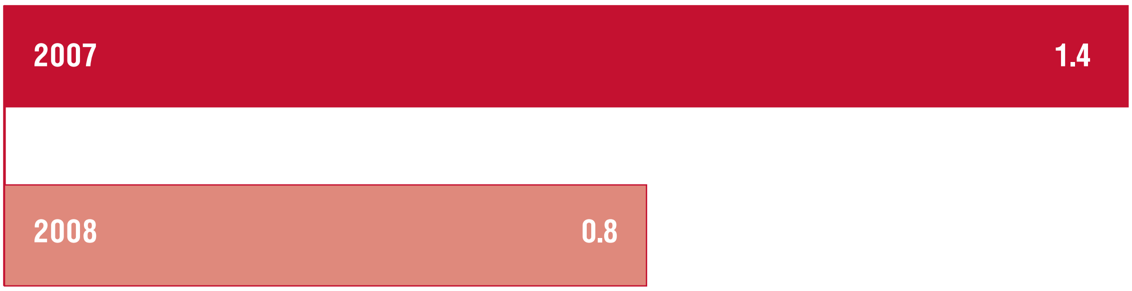
UKRPRODUCT

FINANCIAL HIGHLIGHTS

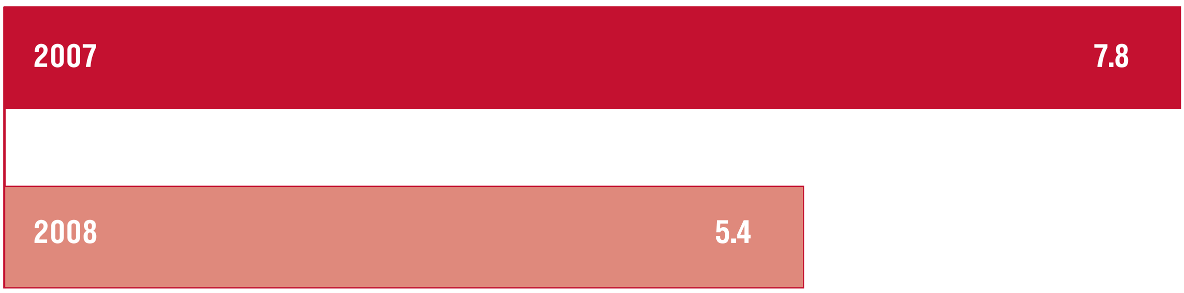
Revenue GBP 52.3 million
2008 increased 8.7%

Gross Profit GBP 10.8 million
2008 increased 3.4%

Dividends per share GBP 0.8 p
2008 decreased 42.8%



Basic Earnings per share GBP 5.4 p
2008 decreased 30.8%



CHAIRMAN'S STATEMENT

Dear Shareholder

I am delighted to present you with our Annual Report providing an overview of Ukrproduct Group's operating and financial performance in 2008.

Despite challenging market conditions during the period under review, Ukrproduct has delivered robust growth in branded products' revenues and gross profits. In line with our stated strategy we continue to focus on branded products, including processed and hard cheese and packaged butter. We are well positioned to take advantage of changes in market demand by offering a range of products in relevant price categories and appropriate quality for the majority of consumer segments. Our skimmed milk powder ("SMP") segment has reversed its highly positive trend in 2007 and has been impacted by price volatility in global dairy markets.

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 line with this policy the Board is recommending paying a final dividend of 0.40 pence per ordinary share for 2008, resulting in the total dividend payment of 0.80 pence per ordinary share for the full year 2008. If approved at the AGM, the final dividend will be paid on 27 July 2009 to the shareholders on record as at 26 June 2009.

In 2008, Irina Yevets and Dmitry Dragun have stepped down from their respective roles as Chief Executive Officer and Chief Financial Officer in order to pursue other business interests. Subsequently, Sergey Evlanchik was appointed as Chief Executive Officer and Roman Prannichuk was appointed as Chief Financial Officer of Ukrproduct Group, with immediate effect. Between February 2005 and June 2006, Sergey served as Chief Executive Officer of the Group and guided Ukrproduct through a successful flotation on AIM in the beginning of 2005 and was instrumental in establishing Ukrproduct as a leading Ukrainian dairy producer.

Looking forward, we seek to improve our market share in each product category and segment of operation. We believe that we have the right strategy for this market and expect it to see us through this challenging period successfully. The Group plans to introduce new types and different packaging for processed cheese in order to address the increasing demand in the low end and mid market segments, and to further develop its sales to retail regional outlets. We intend to continue promoting our brands and products through a series of targeted marketing campaigns and take further steps in increasing the shelf space in regional chains, developing and optimising our sales and distribution network. In the second half of 2009, we plan to launch new marketing campaign for "Nash Molochnik" and "Molendam" brands. However, SMP prices are anticipated to remain weak until there are signs of recovery in the global economy and commodity markets. In 2009 the Group expects to continue reducing its cost structure through optimisation of its overhead and energy costs.

We are optimistic that Ukrproduct will continue to benefit from its strong position in the domestic dairy market with a brand portfolio that targets a wide range of consumer segments. We believe that the Ukrainian dairy market offers growth potential despite the prevailing economic environment. Indeed, under current market conditions there may be consolidation opportunities that Ukrproduct will be able to take advantage of provided that they fit the Group's strategy.

Ukrproduct's financial position remains stable. The Group's cash levels are sufficient to meet the current debt obligations in the short and medium term. In addition, the Group has access to additional banking facilities if required.

On behalf of the Board, I would also like to thank our management team and all our employees for their commitment and achievements during the year.

Jack Rowell
Chairman Ukrproduct Group Ltd

21 May 2009

CHIEF EXECUTIVE'S STATEMENT

Overview of Group operating performance in 2008

In 2008 Ukrproduct generated positive performance whilst operating in the difficult market environment driven by constricted retail demand, lack of monetary liquidity and falling Hryvnia as a result of the broader global financial crisis. The Group's main business segment, branded products, increased its production volumes by 19.7% year on year. Ukrproduct's total production was up by 4% year on year following a 42.6% year on year decline in the skimmed milk powder ("SMP") segment as a result of the continued price volatility in global dairy markets.

The Group has further expanded its portfolio of branded products beyond its core products – soft (processed) cheese and packaged butter, and continued to increase the production volume of hard cheese. The capacity utilisation of the Group's hard cheese production facilities has increased to over 60% by the year end following the launch in December 2007.

Group structure

The Group comprises five dairy plants which are conveniently located in the Western and Central regions of Ukraine:

- Molochnik Plant produces processed cheese and packaged butter
- Starokonstantinovskiy Dairy Plant is engaged in the production of bulk butter, packaged butter and skimmed milk powder (SMP)
- Zhmerinka Butter and Cheese Plant manufactures smoked cheese, processed cheese and butter
- Krasyliv Plant produces bulk and packaged butter
- Letichiv Dairy Plant manufactures butter, fat-free cheese and casein

The Group owns one of the largest logistics and distribution networks in Ukraine which operates domestically through AgroSpetsResursy LLC and exports its SMP products through UkrProdExpo.

Branded products

In 2008 Ukrproduct delivered strong growth in the branded products segment which comprises processed and hard cheeses, butter and spreads. These results were underpinned by a series of successful marketing and sales activities during the year targeting domestic national and regional retail chains, as well as the expansion of direct sales network with two new depot branches in Donetsk and Dnepropetrovsk.

The branded products segment accounted for 86.8% of the Group's total production. In 2008 the Group increased its market shares in core products – butter and processed cheese to 8% and 23%, respectively. Market shares of Ukrproduct's branded products improved, whilst prices kept pace with inflation.

The Group has a diversified brand portfolio which is tailored to several consumer market niches. In 2008 Ukrproduct responded to shifting consumer demand towards less expensive dairy products by increasing the production of processed cheese and spreads. The Group also grew its sales of butter as a result of the consolidation in the market.

Ukrproduct significantly increased the production of hard cheese following its launch in December 2007. Ukrproduct's sales of hard cheese more than tripled in the second half of 2008, compared to the first half. In June 2008, Ukrproduct expanded its brand portfolio to include a new premium brand 'Molendam' for middle class consumers. The Group offered two types of hard cheese, Dutch and Gouda, packaged butter and processed cheese under this brand to supermarket chains throughout Ukraine.

In June 2008, Ukrproduct launched a new design of its major brand "Nash Molochnik" (Our Dairyman). The design features provide better visuals aimed at reflecting market leading quality of the Group's most successful brand. The Group markets its cheese and butter products under this brand. During the year Ukrproduct expanded its product offering under "Nash Molochnik" brand to include sausage cheese with different flavours. In August 2008, the Group launched a new marketing campaign in Ukraine to promote this brand.

Skim Milk Powder (SMP)

In 2008 the skimmed milk powder ("SMP") segment has reversed its highly positive trend and was impacted by price volatility in global dairy markets. In addition, import restrictions on the Ukrainian hard cheese and SMP exports introduced by the Russian authorities in August 2008 impacted domestic pricing. The Group's production of SMP declined by 42.6% year on year in 2008. In the beginning of 2009, Ukrproduct extended a number of contracts with several leading international food companies to supply its SMP products.

Proprietary milk zone

In 2008, the Group's raw milk consumption share accounted for around 1% of total raw milk production in Ukraine. Ukrproduct purchases raw milk from individual farmers and collective farms located in close proximity to its production facilities in Western and Central regions of Ukraine. The Group has established long-term relationships with its suppliers over the last eight years. As at the end of the reporting period, the Group had 93 collecting points and 93 cooling tanks.

In the first half of 2008 Ukrproduct enjoyed lower purchase prices of raw milk as a result of the falling domestic demand for the raw material driven by declining production volumes of SMP in Ukraine. Ukrproduct has introduced a set of measures to effectively manage its cost base.

Sales and Distribution

In 2008 the Group continued to sell the majority of its products in Ukraine. Ukrproduct considers its own logistics, sales and distribution network to be a significant competitive advantage in the market. The Group has further developed its retail presence throughout the country whilst operating seven regional depots as well as a central warehouse. As at 31 December 2008, the Group's fleet comprised more than 120 vehicles. In 2008 Ukrproduct has optimised the delivery schedules of both raw materials and finished goods which enabled it to have a better control over its distribution costs.

In September 2008, the Group launched a nationwide marketing campaign for its leading brand 'Our Dairyman'. The campaign was launched as part of the Group's strategy to expand the distribution of its products to regional retail outlets and to increase the shelf space in large national chains throughout Central, Eastern and Western Ukraine. During the year the Group appointed three new deputy sales directors to increase its presence in these regions, opened regional sales offices in two cities and increased its sales force by 11 people to 387. As at the end of the reporting year, the number of national and regional retail chains and outlets, selling Ukrproduct's dairy products, was 69 and 978, respectively. The Group's products were sold in eight out of the top ten Ukrainian supermarket chains.

During September and October 2008, Ukrproduct conducted a retail audit to measure the presence of its branded products in stores across Ukraine. According to the audit's findings, 'Our Dairyman' branded butter and cheese was found in 50% and 30%, respectively, of Ukrainian retail chains.

Sergey Evlanchik

Sergey Evlanchik
Chief Executive Officer

21 May 2009

FINANCIAL REVIEW

Revenue

In 2008 Ukrproduct delivered positive performance with revenue increasing by 8.7% year on year to GBP 52.3 million (GBP 48.1 million). The Group derived the majority of its revenue from the branded products segment which contributed GBP 38.2 million (2007: GBP 25.2 million) to its results and accounted for 73.0% of the total sales (2007: 52.3%). Skimmed milk powder revenues declined 43.4% year on year as a result of the price volatility in global dairy markets and contributed GBP 11.6 million (2007: GBP 20.4 million) to total revenues.

Selling, Distribution and Administrative expenses increased by 22.2% year on year from GBP 5.69 million to GBP 6.95 million, primarily as a result of the rise in marketing and distribution expenses.

EBITDA and Profit after tax

Group EBITDA declined by 13.4% year on year and amounted to GBP 4.8 million in 2008 (2007: GBP 5.5 million) with EBITDA margin of 9.1% compared to 11.4% in the previous period, as a result of the decline in SMP prices.

Depreciation and amortisation expense increased by 27.6% year on year from GBP 1.4 million to GBP 1.8 million in 2008, following the launch of the hard cheese production unit and the installation of a smoking chamber.

	Sales 2008 £ 000	Share in Sales 2008	Sales 2007 £ 000	Share in Sales 2007	Gross Profit 2008 £ 000	Gross margin 2008	Gross Profit 2007 £ 000	Gross margin 2007
Branded	38,197	73.0%	25,155	52.3%	9,138	23.9%	6,263	24.9%
SMP	11,561	22.1%	20,410	42.4%	1,274	11.0%	3,804	18.6%
Other	2,554	4.9%	2,545	5.3%	406	15.9%	391	15.4%
Total	**52,312**	**100%**	**48,110**	**100%**	**10,818**	**20.7%**	**10,458**	**21.7%**

Gross Profit and Selling, Distribution & Administrative expenses (SG&A)

The current product mix reflects the Group's strategy to increase the sales of higher value added branded products. The Group's gross profit increased by 3.4% year on year and totalled GBP 10.8 million in 2008 (2007: GBP 10.5 million). The gross profit margin was 20.7% in 2008, compared to 21.7% in 2007, as a result of the margin pressure in the skimmed milk powder segment. The gross profit in branded products segment increased by 45.9% year on year with gross profit margin of 23.9% compared to 24.9% in the previous year following the increase in costs associated with the rollout of hard cheese in 2008. The Group's gross profit margin was further impacted by 35% increase year on year in energy and raw material costs, as well as higher inflation in 2008.

Profit after tax decreased by 30.2% year on year to GBP 2.3 million in 2008, compared to GBP 3.3 million in 2007.

Earnings per share and dividends

The Group's basic earnings per share (EPS) declined 30.8% year on year from 7.8 pence to 5.4 pence in 2008. The diluted earnings per share declined 28.0% year on year from 7.5 pence to 5.4 pence in the same period.

An interim dividend of 0.40 pence per share was paid on 25 October 2008. In line with the Group's dividend policy, the Board of Directors proposed to pay a final dividend of 0.40 pence per ordinary share for 2008, resulting in the total dividend payment of 0.80 pence per ordinary share for the full year 2008 (2007: 1.4 pence). The final dividend is expected to be paid on 27 July 2009 to shareholders on record as at 26 June 2009, subject to the approval of the AGM of shareholders.

Cash flow and net debt

Net cash generated by the operating activities totaled GBP 2.6 million in 2008 (2007: GBP 3.6 million) after absorbing the increase in working capital given the rise in sales.

Net cash used in investing activities totaled GBP 1.9 million in 2008 (2007: GBP 2.5 million), with GBP 1.4 million spent on capital expenditure (2007: GBP 2.7 million). During the year, Ukrproduct invested in the increase of hard cheese production capacity and the expansion of the milk collection zone. In the second half of 2008, the Group reduced its capital expenditure going forward to the level of essential maintenance expense.

Net cash used in financing activities amounted to GBP 0.66 million in 2008 (2007: GBP 0.08 million) following the redemption of GBP 0.81 million of local bonds.

The Group's cash balances stood at GBP 0.69 million as at 31 December 2008, compared to GBP 1.1 million as at 31 December 2007. The Group's net debt was GBP 2.99 million as at 31 December 2008, compared to GBP 3.13 million as at 31 December 2007. Further information is disclosed in note 6.

Bank facilities

The Group maintained a working capital facility in local currency, Ukrainian Hryvnia, with Ukraine OTP bank equivalent to up to GBP 4.0 million (2007: GBP 4.0 million). As at 31 December 2008, Ukrproduct has drawn GBP 3.2 million of the available facility (GBP 3.4 million). Ukrproduct also has available additional overdraft facilities for up to GBP 0.7 million.

Financial reporting

The financial statements included in this report were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Roman Prannychuk
Chief Financial Officer

21 May 2009

THE BOARD OF DIRECTORS

As of the date of the 2008 Annual Report approval, the names of the Board members are as follows:

Name	Positiom	Date appointed
Jack Rowell	Non-executive Chairman	November 2004
Sergey Evlanchik	CEO	April 2008
Roman Prannichuk	CFO	September 2008
Alexander Slipchuk	Executive Director	November 2004

In the first half of 2008, Iryna Yevets resigned as Chief Executive Officer and President of Ukrproduct and left the Board of Directors. In September 2008, Dmitry Dragun resigned as Chief Financial Officer and left the Board. Roman Prannichuk was appointed to the Board as his replacement.

The names and other biographical details of the Board members are presented below:

Jack Rowell
Non-executive Chairman

Dr. Rowell (70) has acted as Chairman of a number of companies in the public and private sector, mainly within the food production industry. He was previously an executive director on the board of Dalgety plc responsible for the consumer foods division. Jack also serves as Chairman of Celsis plc, a public company quoted on AIM, and is also Manager of Bath Rugby Club, the Champion of England's Rugby Football Union. Prior to this, Dr. Rowell was CEO of Golden Wonder Ltd. and Lucas Food Ingredients (also part of the Dalgety Food Group). He was educated at Oxford University and is a Chartered Accountant.

Sergey Evlanchik
Chief Executive Officer

Sergey Evlanchik is responsible for the Group's overall performance and strategy implementation and is a founder of Ukrproduct Group. He studied at Vladivostok State University of Economics & Service in the Russian Federation and at 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 in the Far East of the Russian Federation. After the recess of the Russian and Ukrainian equity markets in 1998, Mr Evlanchik refocused his activities on business development in the industrial sector of Ukraine, particular within the dairy industry, where he joined the companies that would subsequently form Ukrproduct Group in 2004. Sergey then led the Group to its successful listing on London Stock Exchange in 2005.

Roman Prannichuk
Chief Financial Officer

Roman Prannichuk was appointed Chief Financial Officer in August 2008 and prior to this he has served as Head of Finance Department of Ukrproduct Group. Roman joined the Company in 2001 as an auditor. From 2005 until his most recent appointment, he held the position of Head of Internal Audit. Mr. Prannichuk is a certified auditor with qualifications conferred by the Ukrainian Audit Chamber, as well as a holder of CAP certificate. Roman's career as an accountant and auditor is now in its 15th year. Within the Group he is responsible for the operational financial controls and the internal audit in Ukraine.

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.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of Ukrproduct Group Ltd for the year ended 31 December 2008.

Principal Activities and business review

Ukrproduct Group Ltd (the Company) is a holding company for a group of dairy based FMCG (fast moving consumer goods) businesses located in Ukraine. The principal activities of Ukrproduct Group are the production and distribution of highly branded dairy foods in Ukraine and the export of milk powder. The Group is one of the leading 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.

Results and Dividends

The results of the Group for the period are set out on page 22 and show a profit for the period of GBP 2.277 million (2007: GBP 3.262 million).

An interim dividend of 0.40 pence per share was paid on 25 October, 2008. The shares are quoted 'ex dividend' from 1 October 2008. Based on the Group's financial performance in 2008, the Board of Directors proposed to pay a final dividend of 0.40 pence per ordinary share for 2008, which would lead to 0.80 pence per ordinary share for the full year (2007: 1.4 pence). The final dividends will be paid on 27 July 2009 to shareholders on the register as at 26 June 2009, subject to shareholders' approval at the 2009 Annual General Meeting.

Directors

Details of members of the Board of Directors are shown on page 9.

The Directors' interests in the share capital of the Company as at 31 December 2008 and 31 December 2007 are shown below:

	Shares		Share options	
	2008	2007	2008	2007
Executive				
Sergey Evlanchik	14,422,383	14,422,383	-	-
Alexander Slipchuk	14,487,383	14,487,383	-	-
Iryna Yevets (resigned)	-	-	-	234,299
Dr Dmitry Dragun (resigned)	-	-	-	117,149
Non-executive				
Dr Jack Rowell	18,690	18,690	130,290	130,290

Powers of the Directors

Subject to the Company's Memorandum and Articles of Association, the Law and any directions given by special resolution, the business of the Company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the Company and who may exercise all such powers of the Company. The rules in relation to the appointment and replacement of Directors are set out in the Company's Article's of Association.

Financial Risks Facing the Group

The principal risks of the business is the credit risk, liquidity risk and market risk, including fair value or cash flow interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Financial Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors.

For further details of the Group's risk management please see note 5 on page 36.

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. Ukrproduct Group had a total of 2,089 employees as at 31 December 2008 (2007: 2,014).

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.

Going concern

Following a review of the Group's financial position and its budgets and plans, the directors have concluded that the Group has sufficient financial resources to meet working capital requirements for a period of up to 12 months from the date of these financial statements.

Annual General Meeting

Ukrproduct's AGM will be held on 26 June 2009. The Notice of AGM and agenda will be sent to shareholders no less than 25 days prior to the date of the meeting.

Auditors

BDO Stoy Hayward LLP was reappointed as the Group's auditors for 2008 financial year at the Annual General Meeting of Shareholders held on June 24, 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.

Sergey Evlanchik
Chief Executive Officer

21 May 2009

CORPORATE GOVERNANCE REPORT

Corporate Governance Policy

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles set out in The Combined Code on Corporate Governance (the "Code") revised in July 2006 by the Financial Reporting Council. Under the rules of AIM, a market operated by the London Stock Exchange, the Company is not required to comply with the Code and the Board considered that the size of the Group does not warrant compliance with all of the Code's requirements. The Board fully supports the principles on which the Code is based and seeks to comply with best practice in such respects as they consider appropriate for a Group of its size and nature. The Board has a wide range of experience directly relevant to the Group and its activities and its structure ensures that no one individual or Group dominates the decision making process.

The Board

The Board consists of one non-executive and three 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 met seven times during 2008 and all the directors, then current, attended all meetings, with the exception of Mr Jack Rowell, who attended six of seven meetings, missing one by prior arrangement.

Board Committees

The Board is assisted by Audit and Remuneration Committees.

Audit Committee

The Audit Committee consists of one non-executive Director, Jack Rowell. 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 meet with the external auditors twice during the year.

Remuneration Committee

The Remuneration Committee comprises one non-executive Director, Jack Rowell. 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.

Relations with shareholders

The Group maintains regular contact with its institutional and private shareholders, fund managers, financial analysts and brokers through a series of presentations, conference calls and meetings. All corporate materials, including annual reports, financial results statements and other information, are available on the Group's website *www.ukrproduct.com*

Chief Executive Officer and Chief Financial Officer hold conference calls and meetings with shareholders on a regular basis. The Board believes that it is essential to discuss with its shareholders and keep them updated with regards to the Group's financial performance, strategy and business developments. The Chairman is also accessible to major shareholders, if such meetings are required.

The Board invites all shareholders to attend the Company's Annual General Meeting and encourage them to exercise their voting right and participate with questions.

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 principal elements of the internal control system are as follows:

- 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

Corporate Social Responsibility

The Board is committed to developing and implementing corporate social responsibility (CSR) policies aimed at:

- Promoting equality and fairness among employees, partners and suppliers
- Ensuring safe working conditions
- Maintaining the Group's corporate reputation and dedication to business ethics
- Supporting the communities in which the Group operates
- 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 above objectives are as follows:

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 Ukrproduct's staff. These are aimed at all employee groups, including managerial, technical and production personnel. The training programmes encourage staff to progress 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 safe working environment. Special attention is given to the production facilities, where the equipment, including lighting, air conditioning, workspace and other constituents, undergo constant reviews and improvements. Regular monitoring is carried out to ensure that the required standards are met and that employees use the provided communication channels to further improve their surrounding working conditions.

Customers

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

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 adopted the environmental laws and regulations of Ukraine to reduce, control and eliminate various types of pollution and to protect natural resources. Ukrproduct monitors and controls all its production facilities regularly in order to ensure that air quality is not adversely impacted by its operations. The Group focuses on cutting water and energy consumption, as well as reducing the volumes of waste. Collection and processing of waste have been organised through the local waste collection plants. 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

Food safety is one of key priorities for the Group. Ukrproduct is committed to produce high quality and safe food and ensures that high standards are maintained within its supplier base. The certified food safety management system in compliance with ISO 22000:2005 was implemented by the Group. This system provides the possibility to fully monitor all production stages – from forage control and sound health of the cattle to the final product distribution. During 2008, food safety standards were audited at all Group's production facilities by the leading international food producers.

Community support

The Group is keen to further enhance and maintain its partnership with local communities by supporting their initiatives and charitable events. The Group contributes 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.

Remuneration Committee

The Remuneration Committee comprises one non-executive Director, Jack Rowell. 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.

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 annually 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:

GBP	Annual Salary/fee		Bonus		Total cash remuneration	
Executive	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Iryna Yevets (resigned)	22,500	60,000	-	60,000	22,500	120,000
Dr Dmitry Dragun (resigned)	40,000	40,000	-	50,000	40,000	90,000
Roman Prannychuk	14,445	-	-		14,445	-
Alexander Slipchuk	70,000	45,000	-	22,500	70,000	67,500
Sergey Evlanchik	83,889	45,000	-	22,500	83,889	67,500
Non-executive						
Dr Jack Rowell	45,000	37,500	-	-	45,000	37,500

Share based payments

In 2005 the Company granted share options to the Directors. Details of the options outstanding at 31 December 2008 are shown below. The Directors' Remuneration disclosed above does not include any amounts for the value of options to acquire shares of the Company.

These options were not exercised.

Directors	Share Option	Exercise Price, pence	Exercise Period
Jack Rowell	130,290	57.0	to 11/02/2009

STATEMENT OF DIRECTORS' RESPONSIBILITY

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.

Jack Rowell
Chairman Ukrproduct Group Ltd

21 May 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 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in 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 and whether the information given in the directors' report is consistent with those financial statements. We also 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, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (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 31 December 2008 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

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

21 May 2009

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2008 £ '000	Year ended 31 December 2007 £ '000
Revenue	7	**52,312**	**48,110**
Cost of Sales	21	**(41,494)**	**(37,652)**
Gross profit		**10,818**	**10,458**
Administrative expenses	21	(3,221)	(2,770)
Selling and distribution expenses	21	(3,729)	(2,919)
Other operating expenses	21	(837)	(619)
Profit from operations		**3,031**	**4,150**
Finance income	22	-	20
Finance expense	22	(592)	(493)
Profit before taxation		**2,439**	**3,677**
Income tax expense	24	(162)	(415)
Profit for the year		**2,277**	**3,262**
Attributable to:			
Equity holders		2,320	3,256
Minority interest	29	(43)	6
		2,277	**3,262**
Earnings per share:	26		
Basic		5.4	7.8
Diluted		5.4	7.5

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Assets			
Non-Current Assets			
Property, Plant and equipment	8	10,527	11,903
Intangible assets	9	1,155	1,093
Available for sale investments	10	557	108
Deferred tax assets	11	117	51
Total non-current assets		**12,356**	**13,155**
Current assets			
Inventories	12	3,511	4,008
Trade and other receivables	13	5,643	5,139
Current taxes	14	267	247
Other financial assets	14	35	29
Cash and cash equivalents	15	691	1,087
Total Current assets		**10,147**	**10,510**
Total assets		**22,503**	**23,665**
Equity and liabilities			
Equity attributable to equity holders			
Share capital	19	4,282	4,164
Other reserves	20	823	4,060
Retained earnings		10,814	7,031
Total equity attributable to equity holders of the parent		**15,919**	**15,255**
Minority interest		82	131
Total equity		**16,001**	**15,386**
Liabilities			
Non-Current Liabilities			
Deferred tax liabilities	11	697	752
Promissory notes	16	285	-
Total Non-Current Liabilities		**982**	**752**
Current Liabilities			
Bank loans and overdrafts	16	3,400	3,407
Trade and other payables	18	2,011	3,211
Taxes payable	18	79	28
Bonds	16	-	811
Current income tax liabilities		30	70
Total Current Liabilities		**5,520**	**7,527**
Total equity and liabilities		**22,503**	**23,665**

These financial statements were approved and authorised for issue by the Board of Directors on May 21, 2009 and were signed on its behalf by:

Sergey Evlanchik
Chief Executive Officer
21 May 2009.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2008 £ '000	Year ended 31 December 2007 £ '000
Cash flows from operating activities		
Profit for the year	2,277	3,262
Adjustments for:		
Exchange difference	192	15
Depreciation and amortisation	1,750	1,371
Loss on disposal of property, plant and equipment	13	64
Interest expense	592	493
Interest income	-	(20)
Income tax expense	162	415
Decrease / (increase) of inventories	139	(1,444)
Increase in trade and other receivables	(1,236)	(1,884)
(Decrease) / increase in trade and other payables	(984)	1,649
Cash generated from operations	**2,905**	**3,921**
Interest received	-	20
Income tax paid	(264)	(384)
Net cash generated by operating activities	**2,641**	**3,557**
Cash flows from investing activities purchase of loans and receivables		
Payments for property, plant and equipment	(1,384)	(2,712)
Proceeds from sale of property, plant and equipment	62	28
Proceeds from sale of available for sale investments	-	176
Purchase of available for sale investments	(530)	(25)
Net cash used in investing activities	**(1,852)**	**(2,533)**
Cash flows from financing activities		
Gross repayments from long term borrowing	-	(100)
(Repayments) / proceeds from issue of bonds net of issue costs	(811)	463
Proceeds from issue of shares, net of issue costs	628	241
Dividends paid	(523)	(459)
Interest paid	(629)	(493)
Net proceeds from short-term borrowing	348	267
Proceeds from issue of promissory notes	329	-
Net cash used in financing activities	**(658)**	**(81)**
Net increase in cash and cash equivalents	**131**	**943**
Effect of exchange rate changes on cash and cash equivalents	(527)	(15)
Cash and cash equivalents at the beginning of the year	**1,087**	**159**
Cash and cash equivalents at the end of the year	**691**	**1,087**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders			Total attributable to equity holders of the parent	Minority interest	Total Equity
	Share capital	Other reserves	Retained earnings			
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 January 2007	**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)
Exchange differences on translation to presentation currency	-	(124)	(90)	(214)	(4)	(218)
Decrease of minority interest	-	-	(10)	(10)	(70)	(80)
Net expense recognised directly in equity	**-**	**(248)**	**22**	**(226)**	**(74)**	**(300)**
Profit for the year	-	-	3,256	3,256	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 (net of issue cost)	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**
Depreciation on revaluation of non-current assets	-	(124)	124	-	-	-
Reduction of revaluation reserve	-	(2)	8	6	-	6
Exchange differences on translation to the presentation currency	-	(3,503)	1,736	(1,767)	(6)	(1,773)
Net expense recognised directly in equity	**-**	**(3,629)**	**1,868**	**(1,761)**	**(6)**	**(1,767)**
Profit for the year	-	-	2,320	2,320	(43)	2,277
Total recognised income and expense for the year	**-**	**(3,629)**	**4,188**	**559**	**(49)**	**510**
Dividends paid	-	-	(523)	(523)	-	(523)
Issue of shares (net of issue cost)	118	510	-	628	-	628
Reduction of options reserve	-	(118)	118	-	-	-
Balance at 31 December 2008	**4,282**	**823**	**10,814**	**15,919**	**82**	**16,001**

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.

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) "Molendam" and "Vershkova Dolina" (Creamy Valley). The average number of employees of the Group during the year ended 31 December 2008 was 2,089 (2007: 2,014).

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 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 Hryvnia ("UAH"). The Hryvnia has also been adopted as the functional currency for the purpose of the consolidated financial statements. Since the Ukrainian Hryvnia 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 £) 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 2008 were adopted by the Group.

- **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.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group.

- **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 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** Interaction (effective for accounting periods beginning on or after 1 January 2008). 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. IFRIC 14 is not relevant to the Group operations due to absence of such arrangements.

- **IAS 39 – Reclassification of Financial Instruments** (effective for accounting periods beginning on or after 1 July 2008). This Amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The Amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. IAS 39 is not relevant to the Group operations due to absence of such arrangements

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2009 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.

- **IFRIC 13, Customer Loyalty Programmes** (effective for accounting periods beginning on or after 1 July 2008). 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.

- **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.

- **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.

The revision to IFRS 3 will be relevant to the Group as and when such transactions falling into the scope of the review standard occur.

- **Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations** (effective for accounting periods beginning on or after 1 January 2009). 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 will continue to assess the impact of the amendment prior to adoption.

- **Amendments to IAS 27, Consolidated and Separate Financial Statements** (both effective for accounting periods beginning on or after 1 July 2009). This Amendment relates in particular to acquisitions of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether control is gained or not, or a transaction simply results in a change in the percentage of the controlling interest. The Amendment does not require the restatement of previous transactions.

- **Amendments to IFRS 1 and IAS 27, Cost of an Investment in a subsidiary, jointly-controlled entity or associate** (both effective for accounting periods beginning on or after 1 January 2009). This Amendment allows a first-time adopter that, in its separate financial statements, elects to measure its investments in subsidiaries, jointly controlled entities or associates at cost to initially recognise these investments either at cost determined in accordance with IAS 27 or deemed cost (being either its fair value at the date of transition to IFRSs or its previous GAAP carrying amount at that date).

- **Amendments to IAS 39, Financial Instruments: Recognition and Measurement: Eligible Hedged Items** (both effective for accounting periods beginning on or after 1 January 2009). This Amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in the designation of a one-sided risk in a hedged item, and inflation in a financial hedged item.

- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (both effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 clarifies that: (a) The presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation. (b) The hedging instrument(s) may be held by any entity or entities within the group, other than the entity being hedged. (c) While IAS 39 Financial Instruments: Recognition and Measurement must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 The Effects of Changes in Foreign Exchange Rates must be applied in respect of the hedged item. IFRIC 16 applies prospectively from its effective date.

- **IFRIC 17, Distributions of Non-cash Assets to Owners** (both effective for accounting periods beginning on or after 1 July 2009). Prior to this interpretation, IFRSs did not address how an entity should measure distributions of assets other than cash when it pays dividends. Dividends payable were sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. The Interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; that an entity should measure the dividend payable at the fair value of the net assets to be distributed; and, that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. It does not have to be applied retrospectively.

- **IFRIC 18, Transfer of Assets from Customers** (both effective for accounting periods beginning on or after 1 July 2009). The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property, plant and equipment (or cash which must be used only to acquire or construct an item of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation clarifies whether and when an asset should be recognised, and how it should be measured. It also clarifies how revenue arising from such a transaction should be recognised.

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.

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:

- the Ukrainian Hryvnia is the currency of the primary economic environment in which the Group operates. Consequently the Ukrainian Hryvnia is the most appropriate functional currency for the Group;
- 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 Hryvnia figures to British pounds for presentation purposes:

- 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.
- 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.
- 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(o) below.

f) Segment reporting

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

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

g) Property, plant and equipment

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

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

All categories of property, plant and equipment are subsequently carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Changes in fair value are recognised in equity (the "revaluation reserve"). An appropriate transfer is made from the revaluation reserve to the 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 note 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 (7 years). The amortisation expense is included within Administrative expenses in the Income Statement.

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

n) 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 in the Income Statement.

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.

o) 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 a liability (accrued expense), after deducting any amount already paid.

p) Foreign currency translation

Transactions denominated in currencies other than the Hryvnia ("foreign currencies") are recorded in Hryvnia 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 Hryvnia 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. The resulting exchange differences are recognised as a separate component of equity.

For translation of the financial data, the exchange rates of Ukrainian Hryvnia 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.

	Hryvnia for 1 GBP (£)	Hryvnia for 1 USD ($)
Official rate as at December 31, 2008	11.1430	7.0700
Official rate as at December 31, 2007	10.0973	5.0500
Weighted average rate for 2008	9.6613	5.2842
Weighted average rate for 2007	10.1124	5.0500

q) 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.

r) 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 receivables), 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.

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 in current liabilities on the balance sheet.

The Group has not classified any of its financial assets as held to maturity.

Available for sale investment. Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's investments in entities not qualifying as subsidiaries as well as investment certificates. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available-for-sale reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the Income statement.

s) Financial liabilities

The Group classifies its financial liabilities into categories depending on the purpose for which the liability was acquired. The Group has not classified any of its liabilities at fair value through profit and loss.

Financial liabilities held at amortised cost include the following items:

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

Bank borrowings, overdrafts, promissory notes and bonds issued by the Group are initially held 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.

t) Dividends

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

u) 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.

v) Borrowing costs

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

w) Operating leases

Operating leases and the corresponding rental charges are charged to the income statement on a straight-line basis over the life of the lease.

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 on 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 9.
- Useful lives of intangible assets and property, plant and equipment. Intangible assets and property, plant

and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long live assets, changes to the estimates used can result in significant variations in the carrying value. Further information is contained in notes 8 and 9.

- 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 note 12.
- 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 10 and 24.
- Legal proceedings. In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.
- 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
		2008	2007	
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%	92.7%	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC**	Ukraine	100%	100%	Acquisition
Podilskiy Dairy Plant Private Enterprise SC****	Ukraine	100%	-	Acquisition
Avtopark Starokonstantinov LLS***	Ukraine	100%	-	Acquisition
Ukrprodexpo SC**	Ukraine	100%	100%	Acquisition
Ukrprodexport Private Enterprise SC**	Ukraine	100%	100%	Acquisition
Ukrproduct-Logistic LLC **	Ukraine	100%	100%	Acquisition
Agrospetsresursy LLC**	Ukraine	100%	100%	Acquisition
Nash Molochnik Private Enterprise SC*	Ukraine	100%	100%	Acquisition
Ukreuroprodukt 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
Ukrproduct – 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 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
**** The company is held through Starkon-Moloko LLC which is 100% - owned subsidiarie of the Company

5. Financial instruments – Risk Management

The principal risks facing the Group's business are credit risk, liquidity risk and market risk, including fair value or cash flow interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Financial Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors.

Principal financial instruments

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

- trade and other receivables;
- investments in unquoted equity securities in Ukraine;
- loans issued;
- cash and cash equivalents;
- bank overdrafts;
- promissory notes;
- trade and other payables;
- other financial liabilities;
- bonds;
- 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

	As at December 2008 £ '000	As at December 2007 £ '000
Financial assets		
Loans and receivebles:		
- trade and other receivables	5,129	4,707
- cash and cash equilaents	691	1,087
- loans issued	35	26
Availlable for sale investments:		
- unquoted investments	557	108
	6,412	**5,928**
Financial liabilities		
Held at amortised cost:		
- bank loans	3,200	3,407
- overdrafts	165	-
- promissory notes	285	-
- other financial liabilities	35	26
- bonds	-	811
- trade and other payables	1,475	1,621
	5,160	**5,865**

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 that a counterparty will not be able to meet its obligations in full when due. Ukrproduct Group is mainly exposed to credit risk from credit sales to the customers in Ukraine. The Group manages its credit risk through the Group's risk assessment policy by evaluating each new customer before signing a contract using the following criteria: trading history and the strength of own balance sheet. The Group attempts to reduce credit risk by conducting periodic review which includes obtaining external ratings and in certain cases bank references.

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 13. 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. 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.

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.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

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. 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.

Liquidity risk

Liquidity risk is a function of the possible difficulty to be encountered in raising funds to meet financial obligations. 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 by maintaining the minimum cash balances and agreed overdraft facilities. The Group also seeks to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its borrowings.

The Group's operating divisions (plants) have different liquidity requirement profiles. As Group's products have short- and long-cycled production, the liquidity risk of each plant is monitored and managed centrally by the Group Treasury function. Each plant has a cash facility based on cash budgets with the Group Treasury. The cash budgets are set locally and agreed by the CFO in advance. The main element of the Group's liquidity management is to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its long-term borrowings.

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.

Maturities of the Group's financial instruments are disclosed further in the notes to these financial statements.

Market risk

Market risk may arise from the Group's use of interest bearing, tradable and foreign currency financial instruments. Market risk comprises fair value interest rate risk, foreign exchange rates and commodity price risk.

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 only from overdrafts, and considered to be insignificant. The Group analyses the interest rate exposure on a monthly basis. As at 31 December 2008 and 2007, all Group's borrowings were at fixed rates (note 16).

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 700 basis-point shift (being the maximum reasonably possible expectation of changes in interest rates) would be an increase of GBP 80,000 (2007: GBP 79,000) or a decrease of GBP 80,000 (2007: GBP 79,000).

Foreign exchange risk

All of the Group's production facilities are located in Ukraine and the Board believes that the foreign exchange risk is minimal. 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. The Group's purchases of the raw milk, semi-processed materials and other components of the manufacturing cost are made in Ukraine and are entirely Hryvnia-denominated. All outstanding balances of trade payable by the Group are in Hryvnia. Currency analysis is provided in Note 30

The management 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.

Commodity price risk

The Ukraine economy has been characterized by high rates of inflation. As we tend to experience inflation-driven increase in certain of our costs, including salaries and rents, which are sensitive to rises in the general price level in Ukraine. In this situation, due to competitive pressures, we may not able to raise the prices we charge for products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Ukraine could increase our cost and decrease our operating margins.

The Group is also exposed to commodity price risk for skimmed milk powder. The price for this product is predominately determined by the world market and the activities of large international trading companies in this market. Since the beginning of 2008 global prices for skimmed milk powder have fallen. The Group took measures in order to reduce its dependence on volatile commodity prices by increasing production of other products, which were less volatile.

The Group controls the prices for branded products through timely changes of sales prices according to the market situation and competition. The prices for SMP in Ukraine tend to grow or decrease depending on the world SMP prices and if in 2008 the prices had not halved the Group would have received an additional gross profit amounting to GBP 1.0 million but if the decrease had been 15-20% more significant that could have led to receiving the profit of GBP 0.2 million less than due.

6. Capital management policies

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 identify the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows;
- 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.

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.

Traditionally, the Group's conservative strategy was to maintain the D/E ratio at 0.6 (60%) maximum. In 2008, 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 2008 and at 31 December 2007 were as follows.

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Total debt	3,685	4,218
Less: Cash and cash equivalents	691	1,087
Net debt	2,994	3,131
Total equity	15,919	15,255
D/E ratio	**18,8%**	**20,5%**

7. Segment information

At 31 December 2008, the Group was organised internationally into three main business segments:

1. Branded product – (processed cheese, hard cheese, butter, packaged butter and packaged spreads)
2. Skimmed milk powders.
3. Other (transport services and resale of third-party goods).

The segment results for the year ended 31 December 2008 are as follows:

£ 000	Branded products	Skimmed milk powder	Other	Un-allocated	Total
Sales, Total	**93,388**	**20,106**	**9,278**	**-**	**122,772**
Sales to internal customers	55,191	8,545	6,724	-	70,460
Sales to external customers	38,197	11,561	2,554	-	52,312
Gross profit	**9,138**	**1,274**	**406**	**-**	**10,818**
Administrative expenses	(2,310)	(241)	(49)	(621)	(3,221)
Selling and distribution expenses	(3,364)	(53)	(46)	(266)	(3,729)
Other operating expenses	-	-	-	(645)	(645)
Loss from exchange differences	-	-	-	(192)	(192)
Profit before interest and taxation	**3,464**	**980**	**311**	**(1,724)**	**3,031**
Finance expenses	-	-	-	(592)	(592)
Profit before taxation	**3,464**	**980**	**311**	**(2,316)**	**2,439**
Taxation	-	-	-	(162)	(162)
Profit for the year	**3,464**	**980**	**311**	**(2,478)**	**2,277**
Segment assets	16,662	2,026	822	-	19,510
Unallocated corporate assets	-	-	-	2,876	2,876
Unallocated deferred tax	-	-	-	117	117
Consolidated total assets	**16,662**	**2,026**	**822**	**2,993**	**22,503**
Segment Liabilities	794	363	311	-	1,468
Unallocated corporate liabilities	-	-	-	4,337	4,337
Unallocated deferred tax	-	-	-	697	697
Consolidated total liabilities	**794**	**363**	**311**	**5,034**	**6,502**
Other segment information:					
Depreciation and amortisation	1,379	279	17	75	1,750
Capital expenditure	1,204	319	12	20	1,555

The unallocated corporate liabilities represent bank loans, overdrafts 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 2007 are as follows:

£ 000	Branded products	Skimmed milk powder	Other	Un-allocated	Total
Sales, Total	**72,974**	**35,805**	**15,060**	**-**	**123,839**
Sales to internal customers	47,819	15,395	12,515	-	75,729
Sales to external customers	25,155	20,410	2,545	-	48,110
Gross profit	**6,263**	**3,804**	**391**	**-**	**10,458**
Administrative expenses	(1,813)	(335)	(49)	(573)	(2,770)
Selling and distribution expenses	(2,051)	(75)	(51)	(742)	(2,919)
Other operating expenses	-	-	-	(604)	(604)
Loss from exchange differences	-	-	-	(15)	(15)
Profit before interest and taxation	**2,399**	**3,394**	**291**	**(1,934)**	**4,150**
Finance expenses	-	-	-	(493)	(493)
Finance income	-	-	-	20	20
Profit before taxation	**2,399**	**3,394**	**291**	**(2,407)**	**3,677**
Taxation	-	-	-	(415)	(415)
Profit for the year	**2,399**	**3,394**	**291**	**(2,822)**	**3,262**
Segment assets	16,846	3,780	518	-	21,144
Unallocated corporate assets	-	-	-	2,470	2,470
Unallocated deferred tax	**-**	**-**	**-**	**51**	**51**
Consolidated total assets	**16,846**	**3,780**	**518**	**2,521**	**23,665**
Segment Liabilities	1,133	1,288	271	-	2,692
Unallocated corporate liabilities	-	-	-	4,835	4,835
Unallocated deferred tax	**-**	**-**	**-**	**752**	**752**
Consolidated total liabilities	**1,133**	**1,288**	**271**	**5,587**	**8,279**
Other segment information:					
Depreciation and amortisation	998	274	31	68	1,371
Capital expenditure	2,043	444	119	70	2,676

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

Secondary reporting format – geographical segments:

Sales by country (consignees)	Year ended 31 December 2008 £ 000	Sales by country (consignees)	Year ended 31 December 2008 £ 000
Ukraine	42,937	Ukraine	32,127
Germany	1,676	Denmark	3,658
Nigeria	1,461	Holland	3,432
Azerbaijan	1,458	Japan	2,322
Other countries	4,780	Germany	1,085
		Other countries	5,486
Total	**52,312**	**Total**	**48,110**

The majority of the Group's 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.

In 2008 the Group expanded the geography of milk powder sales and continues to increase the sales of butter and processed cheeses to Eastern Asia.

8. Property, plant and equipment

	Assets under Construction £ '000	Land and Buildings £ '000	Plant and Machinery £ '000	Vehicles and equipment £ '000	Total £ '000
Cost or valuation					
Opening balance at 1 January 2007	**2,841**	**6,012**	**4,027**	**3,096**	**15,976**
Additions	2,611	-	-	61	2,672
Transfers from AUC	(4,816)	2,040	1,847	929	-
Disposals	-	(45)	(51)	(260)	(356)
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

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	Assets under Construction £ '000	Land and Buildings £ '000	Plant and Machinery £ '000	Vehicles and equipment £ '000	Total £ '000
Disposals	-	(4)	(41)	(192)	(237)
Exchange differences on translation					
to the presentation currency	-	(36)	(28)	(31)	(95)
Closing balance at 31 December 2007	**-**	**2,151**	**1,971**	**1,966**	**6,088**
Cost or valuation					
Opening balance at 1 January 2008	**578**	**7,895**	**5,748**	**3,770**	**17,991**
Additions	1,350	-	4	12	1,366
Transfers from AUC	(1,734)	477	369	888	-
Disposals	-	(100)	(238)	(110)	(448)
Exchange differences on translation					
to the presentation currency	(3)	(787)	(555)	(457)	(1,802)
Closing balance at 31 December 2008	**191**	**7,485**	**5,328**	**4,103**	**17,107**
Accumulated depreciation					
Opening balance at 1 January 2008	**-**	**2,151**	**1,971**	**1,966**	**6,088**
Depreciation charge	-	327	713	644	1,684
Disposals	-	(35)	(43)	(98)	(176)
Exchange differences on translation					
to the presentation currency	-	(288)	(373)	(355)	(1,016)
Closing balance at 31 December 2008	**-**	**2,155**	**2,268**	**2,157**	**6,580**
Net book amount at 31 December 2008	**191**	**5,330**	**3,060**	**1,946**	**10,527**
Net book amount at 31 December 2007	**578**	**5,744**	**3,777**	**1,804**	**11,903**
Net book amount at 31 December 2006	**2,841**	**4,083**	**2,538**	**1,403**	**10,865**

Fixed assets with a net book value of GBP 5,837,414 at 31 December 2008 (GBP 7,189,696 at 31 December 2007) 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.

In accordance with IAS16 the Group carries out revaluations on a regular basis and conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date and no impairment was identified. The Group's business is a single cash generating unit.

9. 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**
Cost or valuation					
At 1 January 2008	**29**	**362**	**752**	**104**	**1,247**
Additions	15	-	-	-	15
Exchange differences on translation to the presentation currency	(2)	138	-	-	136
At 31 December 2008	**42**	**500**	**752**	**104**	**1,398**
Accumulated amortisation					
At 1 January 2008	**21**	**52**	**81**	**-**	**154**
Amortisation charge for the year	5	20	41	-	66
Exchange differences on translation to the presentation currency	(2)	25	-	-	23
At 31 December 2008	**24**	**97**	**122**	**-**	**243**
Net book amount at 31 December 2008	**18**	**403**	**630**	**104**	**1,155**
Net book amount at 31 December 2007	**8**	**310**	**671**	**104**	**1,093**
Net book amount at 31 December 2006	**11**	**334**	**708**	**184**	**1,237**

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

Computer software	4 – 9 years;
Trademarks	17 years;
Customer list	17 years.

Acquired intangible assets and Goodwill

At the year end, the carrying value-in-use was determined by discounting the expected future cash flows of the Group's business to their present value. The key assumptions for the value-in-use calculations were those regarding discount rate and growth rates of the business. The Directors estimate discount rates that current market assessments of the time value of money and risks appropriate to the Dairy business. The discount rate that is considered by the Directors to be appropriate is a discount rate of 25% being the Group's specific weighted average cost of capital.

In estimating the future cash flows the Group has used conservative estimates in respect in revenues generated and costs incurred. An annual growth rate of 2% was used for 2009, 7% for 2010 and 11% for 2011-2012.

The Group regularly monitors the carrying value of its acquired intangible assets and goodwill, or when such events or changes in circumstances indicate that there may be impaired. The result of the review, undertaken at 31 December 2008, was that no impairment needs to be recognised and the carrying value of the acquired intangible assets and goodwill is considered appropriate.

After having analyzed all key factors the Group's Management decided that as of December 31, 2008 the Goodwill of Letichiv Diary Plant did not suffer any impairment. Besides, this asset has unlimited useful life duration and has been tested as part of Group's single generating unit.

Group's production plans are based on the established practice of production and distribution of dairy products in the raw material zone of Letichiv Diary Plant and foresee the use of this asset during an unlimited period of time.

Maintenance of Goodwill does not require considerable costs and the Group does not plan such inputs in the future.

Taking info consideration all the factors mentioned above the Group's Management does not see any impairment in goodwill as of December 31, 2008 and considers that the amount of GBR 0.1 million approximates to its fair value.

10. Available for sale investments

The currency profile of the Group's available for sale investments is as follows.

	Floating rate assets £ '000	Fixed rate assets £ '000	Total as at 31 December 2008 £ '000	Total as at 31 December 2007 £ '000
UAH	-	557	557	108
USD	-	-	-	-
EUR	-	-	-	-
	-	**557**	**557**	**108**

Fair values

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

	Book value as at 31 December 2008 £ '000	Fair value as at 31 December 2008 £ '000	Book value as at 31 December 2007 £ '000	Fair value as at 31 December 2007 £ '000
Investment certificates	152	152		
Other unquoted investments (less than 5-% holding)	405	405	108	108
	557	**557**	**108**	**108**

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

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Investment certificates	152	-
Other unquoted investments (less than 5-% holding)	405	108
	557	**108**

11. Deferred tax

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Deferred tax asset at the beginning of the period	**(51)**	**(42)**
Deferred tax liability at the beginning of the period	**752**	**767**
Deferred tax recognised in income statement during the year	21	40
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortisation	(78)	(57)
Exclusion from Group	-	6
Exchange differences on translation to the presentation currency	(64)	(13)
Deferred tax asset at the end of the period	**(117)**	**(51)**
Deferred tax liability at the end of the period	**697**	**752**

The tax rate used in deferred tax calculations is 25% (2007: 25%)

12. Inventories

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Raw materials	636	1,053
Finished goods	2,128	2,299
Other inventories	747	656
	3,511	**4,008**

As at 31 December 2008 no inventories were pledged as collateral (GBP 1,013,268 at 31 December 2007).

Amounts of inventories recognised as an expense during both periods are disclosed in note 21.

13. Trade and other receivables

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Trade receivables	4,738	3,771
Other receivables	391	936
Prepayments	514	432
	5,643	**5,139**

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

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

Maturity of trade and other receivables

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
In less than 1 year	5,643	5,139
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	-	-
	5,643	**5,139**

As at 31 December 2008 there were no trade and other receivables past due not impaired (2007: nil).

14. Other assets

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
VAT receivable	267	247
Prepaid profit tax	-	3
Loans issued to employees	35	26
	302	**276**

Loans issued are denominated in Hryvnia, are short term in nature, and are interest free. Loans are issued to Group employees.

15. Cash and cash equivalents

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Cash – in UAH	12	10
Bank – in UAH	368	234
Bank – in foreign currency	311	843
	691	**1,087**

16. Financial liabilities – borrowings

Bank loans and promissory notes

Bank loans include a secured 3-year credit line of up to UAH 40,000,000 (?4,000,000) from OTP Bank CJSC denominated in Ukrainian Hryvnia (UAH). As at 31 December 2008 an amount of GBP 3,199,551 was drawn from this credit line (2006: GBP 3,406,868). The average interest rate as at 31 December 2008 was 17.0% (2007: 14.5%). This loan is secured by the assets of OJSC Molochnik, Starokonstantinovskiy Molochniy Zavod SC and Starkon-Moloko LLC.

At December 31, 2008 there was a debt connected to the promissory notes issued amounting to UAH 3,178,739 (GBP 285,000) with the maturity date of 2011.

Maturity of financial liabilities.

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

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
On demand	165	-
In less than 1 year	3,235	4,218
In more than one year but not more than two years	-	-
In more than two years but not more than five years	285	-
	3,685	**4,218**

Interest rate profile of financial liabilities

The Group's has borrowing facilities available at 31 December 2008 in which all conditions have been met

	Floating rate £ '000	Fixed rate £ '000	Total as at 31 December 2008 £ '000	Total as at 31 December 2007 £ '000
On demand	165	-	165	-
Expiry within 1 year	-	3,235	3,235	4,218
Expiry within 1 and 2 years	-	-	-	-
Expiry in more than 2 years		285	285	
	165	**3,520**	**3,685**	**4,218**

Currency profile of financial liabilities

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 2008 £ '000	Total as at 31 December 2007 £ '000
UAH	165	3,520	3,685	4,218
USD	-	-	-	-
EUR	-	-	-	-
	165	**3,520**	**3,685**	**4,218**

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

	Book value as at 31 December 2008 £ '000	Fair value as at 31 December 2008 £ '000	Book value as at 31 December 2007 £ '000	Fair value as at 31 December 2007 £ '000
Bank loans	3,200	3,200	3,407	3,407
Bank overdrafts	165	165	-	-
Promissory notes	285	285		
Bonds	-	-	811	811
Other financial liabilities	35	35	-	-
	3,685	**3,685**	**4,218**	**4,218**

Current portion of long-term liabilities

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Bonds	-	811
	285	**811**

On 6 March 2008 Agrospetsresursy LLC redeemed the bonds in full, and as of December 31, 2008 the Group does not have any liabilities related to the long-term loans and bonds.

17. Non-cancellable lease commitments

As at 31 December 2008, the operating lease commitments on non-cancellable leases for all the companies included into the consolidation totalled GBP 485,000 (2007: GBP 38,500).

The total future value of minimum lease payments are due as follows

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Not later than 1 year	404	39
Later than one year but not later than five years	81	-
Later than five years	-	-
	485	**39**

Non-cancellable lease commitments represent rent of offices and warehouses.

18. Trade and other payables

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Trade payables	1,235	1,395
Other payables	160	385
Prepayments	372	1,033
Accruals	244	398
VAT and other taxation payable	79	28
	2,090	**3,239**

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

19. Share capital

	Authorised			
	As at 31 December 2008 Number '000	As at 31 December 2008 £ '000	As at 31 December 2007 Number '000	As at December 2007 £ '000
Ordinary shares of 10p each	50,000		50,000	
		5,000		5,000

	Issued and fully paid at beginning and end of the year			
	2008 Number '000	2008 £ '000	2007 Number '000	2007 £ '000
Ordinary shares of 10p each				
At beginning of the year	41,645	4,164	41,215	4,121
Issues during the year	1,173	118	430	43
At end of the year	**42,818**	**4,282**	**41,645**	**4,164**

The average share price at the date of exercise of the warrants in 2008 was 74 pence.

In January – February of 2008 WH Ireland exercised warrants granted at the date of the Company's initial public offering with an exercise price of 53.5 pence. The total consideration received was GBP 628,000.

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 2007	**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**
Issue of shares	510	-	-	-	-	510
Depreciation on revaluation of property, plant and equipment	-	-	-	-	(124)	(124)
Reduction of revaluation reserve	-	-	-	-	(2)	(2)
Reduction of options reserve	-	-	(118)	-	-	(118)
Exchange differences on translation to the presentation currency	(5)	-	(2)	(3,365)	(131)	(3,503)
Balance at 31 December 2008	**4,622**	**(1,427)**	**24**	**(3,824)**	**1,428**	**823**

The reduction in revaluation reserve is due to sale of property, plant and equipment which have previously been revalued.

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Revaluation	Gains arising on the revaluation of the Group's property. The balance on this reserve is wholly undistributable.
Merger	Losses arising on the application of the pooling of interests method of consolidation used to account for the merger of Ukrproduct Group Ltd and its subsidiaries.

Share option — Amount arising from share based payments (issue of share options).

Retained earnings — Cumulative net gains and losses recognised in the consolidated income statement.

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

Minority interest — Portion of the profit or loss and net assets of the subsidiary attributable to equity interests that are not owned, directly or indirectly through the subsidiaries, by the parent.

21. Expenses by nature

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Raw materials and consumables used, cost of goods sold	33,580	31,991
Wages and salaries	4,218	3,460
Social security costs	1,355	1,112
Deprecation of property, plant and equipment	1,684	1,309
Amortisation of intangible assets	66	62
Operating lease expense (Property)	536	352
Other (sale of equity stake)	-	22
Loss on disposal of fixed assets	13	42
Audit fees	72	94
Exchange difference	192	15
Other expenses	7,565	5,501
Total cost of goods sold, marketing and distribution costs and administrative expenses	**49,281**	**43,960**

22. Finance income and expense

Recognised in income statement

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Finance income		
Interest income on loans to related parties	-	20
Total interest income calculated using effective interest method	-	20
Finance expense		
Interest expense on bank loans	(563)	(407)
Interest expense on bonds	(27)	(84)
Other finance expense	(2)	(2)
Total finance expense	(592)	(493)
Net finance expense recognised in income statement	(592)	(473)

23. Employee benefit expense

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Wages and salaries		
(including key management personnel)	4,218	3,460
Social security costs	1,355	1,112
	5,573	**4,572**

Remuneration of key management personnel

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Salaries	276	227
Bonuses	-	155
	276	**382**

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

24. Income tax expense

Income tax comprised the following:

	Year ended 31 December 2008 £ '000	Year ended 31 December 2007 £ '000
Current tax charge – Ukraine	208	426
Current tax charge – non-Ukraine	11	6
Deferred tax relating to the origination		
and reversal of temporary differences	(57)	(17)
Income tax charge for the year	**162**	**415**

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 2008 £ '000	As at 31 December 2007 £ '000
Profit before tax – Ukraine	(898)	1,058
Profit before tax – non-Ukraine	3,337	2,619
	2,439	**3,677**
Tax calculated at domestic tax rates applicable		
to profits in the relevant countries	102	271
Expenses not deductible for tax purposes	60	144
Tax charge	**162**	**415**

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 2008 £ '000	As at 31 December 2007 £ '000
Profit before tax:		
Ukraine	(898)	1,058
Cyprus	1,017	65
Other (BVI, Jersey)	2,320	2,554
Profit before tax, total	**2,439**	**3,677**

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Tax calculated at domestic tax rates applicable		
to profits in the relevant countries		
Ukraine (25%)	-	265
Cyprus (10%)	102	6
BVI, Jersey (0%)	-	-
	102	**271**
Net income not subject to tax and expenses		
not deductible for tax purposes		
Ukraine	150	144
Cyprus	(90)	-
BVI, Jersey	-	-
	60	**144**
Tax charge		
Ukraine	151	409
Cyprus	11	6
BVI, Jersey	-	-
	162	**415**
The weighted average applicable tax rate		
Ukraine	Nil	25%
Cyprus	10%	10%
BVI, Jersey	Nil	Nil
	4.2%	**7.4%**

The weighted average applicable tax rate was 4.2% (2007: 7.4%). 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 2008 vested on 11 February 2006 and expired on February 11, 2009.

	2008 Weighted average exercise price (£)	2008 Number	2007 Weighted average exercise price (£)	2007 Number
Outstanding at beginning of the year	0.570	612,028	0.570	912,028
Granted during the year	-	-	-	-
Forfeited during the year	0.570	481,738	-	-
Exercised during the year	-	-	0.570	300,000
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	0.570	130,290	0.570	612,028
Exercisable at the end of the year	0.570	130,290	0.570	612,028

The fair value of the options granted in 2005 was GBP 95,336. No income statement charge was recognised in respect of share based payments in 2008 and 2007 due to that fact that all options vested in 2006.
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	25%
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 by the weighted average number of shares in issue.

	31 December 2008	31 December 2007
Net profit attributable to ordinary shareholders, £'000	2,320	3,256
Weighted number of ordinary shares in issue	42,817,849	41,644,953
Basic earnings per share, pence	5.4	7.8
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	42,817,849	43,429,877
Diluted earnings per share, pence	5.4	7.5

As at 31 December 2008, there were no warrants in issue (2007: 1,172,896).

27. 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. They were exercised on 11 February 2008. During the period under review the Company did not grant warrants to any parties.

	2008 Weighted average exercise price (£)	2008 Number	2007 Weighted average exercise price (£)	2007 Number
Outstanding at beginning of the year	0.535	1,172,896	0.535	1,302,896
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	0.535	1,172,896	0.535	130,000
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	0.535	-	0.535	1,172,896

The average share price at the date of exercise of the warrants in 2008 was 74 pence (2007: 90 pence).

At 31 December 2008, no warrants were exercisable (2007: 1,172,896).

28. Dividends

As at 27 April 2009, the Board of Directors proposed the final dividend payment of 0.40 pence per ordinary share for the year ended 31 December 2008 which would lead to 0.80 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 27 July 2009 to the shareholders on the register as at 26 June 2009. 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 2008 £ '000	Year ended 31 December 2007 £ '000
Final dividend for 2007 of 0.82 pence (2006 – 0.51 pence)		
per ordinary share proposed and paid during the year relating		
to the previous year's results	351	210
Interim dividend of 0.40 pence (2007 – 0.60 pence)		
per ordinary share paid during the year	172	249
Total	**523**	**459**

The directors are proposing a final dividend of 0.40 pence (2007 – 0.82 pence) per share totalling GBP 172,000 (2007: GBP 351,000). This dividend has not been accrued at the balance sheet date.

29. Minority interest

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at 1 January	**131**	**199**
Net profit for the period	(43)	6
Decrease of minority interest	-	(70)
Exchange differences on translation to the presentation currency	(6)	(4)
Balance at 31 December	**82**	**131**

As at 31 December 2008 a minority interest of 2.4% (2007: 2.4%) was held in Molochnik OJSC, and 7.3% was held in Letichevsky Maslozavod OJSC (2007: 7.3%).

30. 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 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 2008	Year ended 31 December 2007
Sales	71	374
Purchases	69	370
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 2008 £ '000	As at 31 December 2007 £ '000
Receivables and prepayments	**131**	**190**
Trade and other payable	**(59)**	**(31)**

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

In 2008, the Group's commercial relationships with the related parties comprised sales, purchases, provision and repayment of loans. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given to or provided by from the Group to related parties and vice versa.

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

31. Currency analysis

Currency analysis for the period ended 31 December 2008 is set out below:

£ '000	UAH	USD	RUR	GBP	EUR	Total
Non-Current Assets						
Property, Plant and equipment	10,495	32	-	-	-	10,527
Intangible assets	18	403	-	734	-	1,155
Available for sale investments	535	22	-	-	-	557
Deferred tax assets	117	-	-	-	-	117
Current assets						
Inventories	3,511	-	-	-	-	3,511
Trade and other receivables	4,613	766	264	-	-	5,643
Current taxes	267	-	-	-	-	267
Other financial assets	35	-	-	-	-	35
Cash and cash equivalents	130	258	-	303	-	691
Total assets	**19,721**	**1,481**	**264**	**1,037**	**-**	**22,503**
Non-Current Liabilities						
Deferred tax liabilities	697	-	-	-	-	697
Promissory notes	285	-	-	-	-	285
Current Liabilities						
Bank loans and overdrafts	3,400	-	-	-	-	3,400
Trade and other payable	1,909	-	12	90	-	2,011
Taxes payable	79	-	-	-	-	79
Current income tax liabilities	30	-	-	-	-	30
Total Liabilities	**6,400**	**-**	**12**	**90**	**-**	**6,502**

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
Available for sale investments	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
Current taxes	247	-	-	-	-	247
Other financial assets	29	-	-	-	-	29
Cash and cash equivalents	244	197	-	645	1	1,087
Total assets	**21,503**	**724**	**-**	**1,426**	**12**	**23,665**
Non-Current Liabilities						
Deferred tax liabilities	752	-	-	-	-	752
Current Liabilities						
Bank loans and overdrafts	3,407	-	-	-	-	3,407
Trade and other payable	1,807	937	13	454	-	3,211
Taxes payable	28					28
Current income tax liabilities	811	-	-	-	-	811
Total Liabilities	**70**	**-**	**-**	**-**	**-**	**70**
Total Liabilities	**6,875**	**937**	**13**	**454**	**-**	**8,279**

32. Notes supporting the consolidated cash flow statement

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

	As at 31 December 2008 £ '000	As at 31 December 2007 £ '000
Cash available on demand	691	1,087
	691	**1,087**

In the period under consideration, there were no major non-cash transactions (2007 – nil).

33. Post balance sheet events

There are no significant post balance sheet events.

CORPORATE ADVISERS

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SHAREHOLDER INFORMATION

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Registered number 88352 in Jersey

Financial Calendar

31 December 2008	Financial year end
29 April 2009	Preliminary Announcement of full year 2008 results
26 June 2009	Annual General Meeting
27 July 2009	Final Dividend Payment
End of September 2009	Announcement of first half of 2009 results
31 December 2009	Financial year end

Analysis of shareholding – at 31 December 2008

Size of shareholdings	Number of holders	% of total	Total holdings, '000	% of total
Up to 5000 shares	43	42,2%	73 898,00	0,17%
5001 to 50000 shares	33	32,4%	559 910,00	1,31%
50001 to 200000 shares	11	10,8%	1 279 979,00	2,99%
Over 200000 shares	15	14,7%	40 904 062,00	95,53%
Total	**102**	**100%**	**42 817 849,00**	**100,00%**

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 31 December 2008, 67.5% of the common shares of the company.

Share price (pence) - year to 31 December 2008

At end of year: 17 p	Lowest: 16.5 p	Highest: 80.5 p

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*.

Investor Relations

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