



UKRPRODUCT GROUP
Annual Report
2009

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CEO COMMENT AND FINANCIAL HIGHLIGHTS

In 2009 the Group experienced a challenging trading environment. The Company management recognised the changing market conditions and optimised the product portfolio in response, focusing on growth in the more affordable market segments. The Company adjusted its output and production facilities to take advantage of growth in these segments, whilst also focusing on reducing costs and keeping bad debts at a low level. The Company expects the situation is likely to remain challenging in 2010. We will continue to pursue our adopted strategy and seek to reduce costs and improve profitability.

KEY FIGURES

(Figures in brackets are for the twelve months ended 31 December, 2008)

- Ukrainian economy has slowed during the year with real GDP declining 14.8% and the Ukrainian Hryvnia ("UAH") depreciating against GBP by 23.9% on average compared to 2008
- Group revenue declined by 16.9% YoY to GBP 43.2 million (GBP 51.9 million) but was up by 5.2% YoY in local currency to UAH 527.9 million (UAH 501.6 million)
- Revenue in branded products segment declined by 21% YoY to GBP 29.9 million (GBP 37.8 million) but was flat in local currency at UAH 365.2 million
- Market share in packaged butter segment increased to 13.5% (12%) and in processed cheese segment to 23.1% (21.6%)
- Gross profit for branded products declined by 25.9% YoY to GBP 6.5 million (GBP 8.8 million) with Gross profit margin of 21.7% (23.1%)
- Global market conditions for skimmed milk powder segment improved in second half of 2009. Revenue from SMP increased by 4% YoY to GBP 12 million (GBP 11.6 million) and by 31.7% YoY in local currency to UAH 147.1 million (UAH 111.7 million)
- Gross profit declined by 33.6% YoY to GBP 6.9 million (GBP 10.4 million) with gross profit margin of 16.1% (20.1%), following the unexpected increase in raw milk prices in the fourth quarter and a significant rise in energy costs
- Earnings per share declined by 53.7% YoY to 2.5 p (5.4p)
- Positive cash flow with cash balance standing at GBP 0.2 million (GBP 0.7 million at 2008 YE) and bank facilities in place for any future needs
- Proposed final dividend payment of 0.20 per ordinary share for 2009FY (interim dividend of 0.20p), making a total dividend for the year of 0.40p per share.



Sergey Evlanchik
Chief Executive Officer
21 April 2010



CHAIRMAN AND CHIEF EXECUTIVE STATEMENT

Dear Shareholder

Please receive our annual report which provides an overview of Ukrproduct Group's operating and financial performance in 2009.

In this year the Group witnessed a significant slowdown in the Ukrainian economy accompanied by 14.8% decline of real GDP. This led to a 9.2% decrease in personal income and a 20.6% drop in retail turnover. The Ukrainian dairy market was impacted by the decline in consumers' purchasing power and the subsequent switch of consumer demand to cheaper dairy products. Overall, the Ukrainian dairy market capacity has contracted across our key product categories in 2009. At the same time, Ukrproduct achieved market share increases in the butter and processed cheese segments.

Facing challenging market conditions Ukrproduct undertook a number of initiatives in order to maintain its sales volumes in 2009. The Group optimised its product portfolio by focusing on higher margin products in butter, sliced soft cheese and cheese spreads categories, and introducing incentives to retailers for prepayments. This enabled Ukrproduct to attract new clients and to strength-

en its relationships with existing customers. The Group consolidated its customer base and focused on working only with solvent customers thus allowing it to maintain its level of bad debt at below 1% of total revenue in 2009. Throughout the year Ukrproduct carried out a number of marketing campaigns for its leading brands "Our Dairyman", "Creamy Valley" and "Molendam". Following these campaigns, the Group expanded its products presence in several regions, including Southern and Central Ukraine. Sales volumes were broadly in line with the previous year, declining by only 2% year on year.

In 2009 Ukrproduct maintained its leading position in the packaged butter segment and increased its market share by 1.5% year on year to 13.5%. The Group also benefited from consumer preferences shift back into processed cheese from hard cheese due to higher prices of hard cheese in the second half of the year. As a result, the Group leveraged its strong distribution network to increase its share in the processed cheese segment by 1.5% year on year to 23.1%

In line with our stated strategy, we continued to look for opportunities to optimise our costs. As a result we have consolidated our manufacturing activities at four plants and shut down operations at the Zhmerinka plant. We have transferred the production of processed cheese and butter to other plants and achieved annualised cost savings amounting to approximately GBP300,000.

Branded products

We remained focused on further developing the branded product segment. Specifically, we have strengthened our position in the premium market segment by expanding the product range and launched new high margin products under the premium “Molendam” brand, including cheese in bricks, sausage cheese and cheese spreads aimed at import substitution.



At the same time our flexible production model allowed us to adjust our output to take advantage of the growth in consumer demand in more affordable market segments. As a result, we increased sales volumes of packaged butter and processed cheese spreads under the “Creamy Valley” brand.

During the year Ukrainian hard cheese producers responded to the weakening domestic demand by cutting prices and over saturating the market. As a result, the difference between the price of hard and processed cheeses narrowed leading to a partial shift in consumer demand from processed to hard cheese. Ukrproduct’s sales volumes and margins were impacted by this

change. Hard cheese prices started to recover in the second half but profitability still remains low.

Skimmed Milk Powder (SMP)

Following the recovery in the global soft commodities markets starting from Q2’09 Ukrproduct has leveraged its export operations to increase sales volumes (in tonnes) of SMP by nearly 64% year on year. The Group signed new sales contracts and started shipments of SMP in Ukraine to such companies as Danone, Wimm-Bill-Dann and others.

Outlook

Looking forward, we plan to grow sales in all product categories and segments of the Group, as well as to increase the capacity utilisation of both our production and distribution facilities. We intend to continue promoting our brands and products through a series of targeted marketing campaigns.

Furthermore, we will explore the opportunities to broaden the range of exported products under our flagship brand “Our Dairyman” and our premium brand “Molendam”, as well as to expand into new export markets in the CIS.

Following the recent elections in Ukraine we look forward to stability in the economy. Nevertheless the trading environment will likely remain challenging. We will therefore continue to pursue our strategy of realigning product to different market segments, ensuring the product offering is appropriate for this market situation, seeking to reduce costs and improve profitability. Meanwhile the cash position of the Group is stable.

On behalf of the Board, we would like to thank all our employees for all their hard work for the Company in what is a very challenging economic environment.”

Jack Rowell *Sergey Evlanchik*

Jack Rowell
Chairman

Sergey Evlanchik
Chief Executive Officer
21 April 2010

FINANCIAL REVIEW

Revenue

Ukrproduct consolidated revenues decreased by 16.9% year on year in 2009. The branded products segment continued to account for the majority of the Group's revenues, respectively 69.2% in 2009 (72.8% in 2008). Branded products segment revenues declined 21% year on year. Skimmed milk powder revenues increased by 4.0% year on year following the recovery in global soft commodities markets.

production to other parts of the Group which have generated sizable savings.

EBITDA and Profit after tax

Group EBITDA declined by 27.5% year on year in 2009. Depreciation and amortisation expense declined by 19.8% year on year from GBP 1.8 million in 2008 to GBP 1.4 million in 2009. Profit after tax decreased by 54.3% year on year in 2009.

	Sales 2009 £ '000	Share in Sales 2009	Sales 2008 £ '000	Share in Sales 2008	Gross Profit 2009 £ '000	Gross margin 2009	Gross Profit 2008 £ '000	Gross margin 2008
Branded	29,864	69.2%	37,811	72.8%	6,480	21.7%	8,750	23.1%
SMP	12,026	27.9%	11,561	22.3%	267	2.2%	1,274	11.0%
Other	1,277	2.9%	2,553	4.9%	182	14.2%	406	15.9%
Total	43,167	100%	51,925	100%	6,929	16.1%	10,430	20.1%

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

The Group's gross profit declined by 33.6% year on year in 2009 with gross profit margin of 16.1% in 2009, compared to 20.1% in 2008, as a result of the margin pressure in the processed cheese categories and skimmed milk powder segment. SMP gross profit margin declined to 2.2%, compared to 11% in 2008. SMP prices started to recover only towards the end of the year, in October. The branded products segment gross profit margin remained relatively stable at 21.7%, compared to 23.1% in the previous year. The Group's gross profit margin was further impacted by 82.3% year on year increase in gas costs, 23.3% rise in electricity costs, as well as the increase in packaging costs.

The Group's Administrative, Selling and Distribution expenses decreased by 21.1% year on year from GBP 6.6 million in 2008 to GBP 5.2 million in 2009 due to cost optimisation measures. The Group's cost reduction measures introduced in the second half of 2009 including the closure of the Zhmerinka plant and shifting of

Earnings per share and dividends

The Group's basic earnings per share (EPS) declined 53.7% year on year from 5.4 pence to 2.5 pence in 2009. The diluted earnings per share declined 52.8% year on year from 5.3 pence to 2.5 pence in the same period.

Ukrproduct paid an interim dividend of 0.20 pence per share on October 30, 2009. In line with the Group's dividend policy, the Board of Directors proposed to pay a final dividend of 0.20 pence per ordinary share for 2009, resulting in the total dividend payment of 0.40 pence per ordinary share for the full year 2009 (2008: 0.8 pence). The final dividend is expected to be paid on 16 July 2010 to shareholders of record as at 11 June 2010, subject to the approval of the AGM of shareholders.

Cash flow and net debt

Net cash generated by the operating activities totalled GBP 2.2 million in 2009 (2008: GBP 2.6 million).

Net cash used in investing activities totalled GBP 0.1 million in 2009 (2008: GBP 1.9 million), with GBP 0.6 million spent on capital expenditure (2008: GBP 1.4 million). During the year, Ukrproduct invested in maintaining its production capacities. In the second half of 2009, the Group reduced its capital expenditure to the level of essential maintenance expense.

Net cash used in financing activities amounted to GBP 2.35 million in 2009 (2008: GBP 0.66 million). In the first half of the year, the Group repaid its debt to OTP Bank in the amount of GBP 1.4 million

The Group's cash balances stood at GBP 0.24 million as at 31 December 2009, compared with GBP 0.69 million as at 31 December 2008. The Group's net debt was GBP 1.35 million as at 31 December 2009, compared with GBP 2.99 million as at 31 December 2008. The Group maintained a working capital facility in Ukrainian Hryvnia with OTP Bank equivalent to up to GBP 3.2 million (2008: GBP 4.0 million). As at 31 December 2009, Ukrproduct has drawn down GBP 1.6 million of the available facility (2008: GBP 3.2 million). The Group's cash levels are sufficient to meet current debt obligations in the short and medium term.

Further information is disclosed in note 6

Bank facilities

The Group maintained a working capital facility in Ukrainian Hryvnia with OTP Bank equivalent to up to GBP 3.2 million (2008: GBP 4.0 million). As at 31 December 2009, Ukrproduct has drawn down GBP 1.6 million of the available facility (2008: GBP 3.2 million). Ukrproduct also has available additional overdraft facilities for up to GBP 0.6 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 April 2010

THE BOARD OF DIRECTORS

As of the date of the 2009 Annual Report approval, the Board members are as follows:

Name	Position	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



Jack Rowell (71)
Non-executive Chairman

Dr. Rowell 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 served as

Chairman of Celsis plc. He has also been Manager of Bath Rugby, then the Champions of England and the English national team. 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 (34)
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, particularly 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 AIM market of the London Stock Exchange in 2005.



Roman Prannichuk (35)
Chief Financial Officer

Roman Prannichuk was appointed Chief Financial Officer in September 2008 and prior to this he 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 16th year. Within the Group he is responsible for the operational financial controls and the internal audit in Ukraine.



Alexander Slipchuk (43)
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 Starokonstantinovskiy Dairy plants, Ukrproduct's two main operating assets. He serves as the Group's Executive Director in an 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 2009.

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

for the full year (2008: 0.80 pence). The final dividends will be paid on 16 July 2010 to shareholders on the register as at 11 June 2010, subject to shareholders' approval at the 2010 Annual General Meeting.

Directors

Details of members of the Board of Directors are shown on page 6.

The Directors' interests in the share capital of the Company as at 31 December 2009 and 31 December 2008 are shown below:

	Shares		Share options	
	2009	2008	2009	2008
Executive				
Sergey Evlanchik	14,422,383	14,422,383	-	-
Alexander Slipchuk	14,487,383	14,487,383	-	-
Non-executive				
Dr Jack Rowell	38,690	38,690	130,290	130,290

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 and Chief Executive Statement and in the Financial Review.

Results and Dividends

The results of the Group for the period are set out on page 19 and show a profit for the period of GBP 1.041 million (2008: GBP 2.277 million).

An interim dividend of 0.20 pence per share was paid on 30 October, 2009. The shares are quoted 'ex dividend' from 7 October 2009. Based on the Group's financial performance in 2009, the Board of Directors proposed to pay a final dividend of 0.20 pence per ordinary share for 2009, which would lead to 0.40 pence per ordinary share

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 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 min-

imise 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 37.

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 1,925 employees as at 31 December 2009 (2008: 2,089).

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 month from the date of these financial statements.

Annual General Meeting

Ukrproduct's AGM will be held on 24 June 2010. The Notice of AGM and agenda will be sent to shareholders no less than 18 days prior to the date of the meeting.

Auditors

Baker Tilly Channel Islands Limited was appointed as the Group's auditors for the 2009 financial year by the Board resolution following the Annual General Meeting of Shareholders held on June 26, 2009.

Statement as to disclosure of information to the auditor

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.



Jack Rowell
Chairman
21 April 2010



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 possible, when Directors are present in either (or both) Jersey or Ukraine.

The Board met four times during 2009 and all the directors attended all meetings, with the exception of Mr Alexander Slipchuk, who attended three of four 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 met twice during 2009.

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.

The Remuneration Committee held two meetings during 2009.

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

The Chief Executive Officer and Chief Financial Officer hold conference calls and meetings with major shareholders on a regular basis. The Board believes that it is essential to discuss with its major 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 encourages 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 parties.

The main elements of the Group's approach towards fulfilling the above objectives are as follows:

Employees

The Group is committed to ensure 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 2009, the Group successfully passed the audit conducted by Nestle. Nestle acknowledged high quality of Ukrproduct's products, as well as advanced milk powder production technologies and multi-level quality control.

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.

The Remuneration Committee held two meetings during 2009.

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 responsibili-

ties, 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		Non-cash compensation		Total cash remuneration	
	2009	2008	2009	2008	2009	2008	2009	2008
Executive								
Iryna Yevets (resigned)		22,500	-	-	-	-	-	22,500
Dr Dmitry Dragun (resigned)	-	40,000	-	-	-	-	-	40,000
Roman Prannychuk	40,000	14,445	-	-	-	-	40,000	14,445
Alexander Slipchuk	70,000	70,000	-	-	-	-	70,000	70,000
Sergey Evlanchik	90,000	83,889	-	-	-	-	90,000	83,889
Non-executive								
Dr Jack Rowell	45,000	45,000	-	-	-	-	45,000	45,000

Share based payments

In 2005 the Company granted share options to the Directors. Details of the options outstanding at 31 December 2009 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	12.8	06/07/2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of

financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. In preparing the financial statements, the Directors are required 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 April 2010



INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF UKRPRODUCT GROUP LIMITED

We have audited the consolidated financial statements of Ukrproduct Group Limited for the year ended 31 December 2009 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes. These consolidated financial statements have been prepared under the accounting policies set therein.

This report is made solely to the company’s members as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors’ responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union, (“IFRS”) 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 are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors’ report is not consistent with the financial statements, if the company has not kept proper accounting records and if we have not received all of the information and explanations we require for our audit.

We read the 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, CEO Comment and Financial Highlights, Chairman and Chief Executive's Statement, Financial Review, Corporate Governance Report, Corporate Social Responsibility Report and Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS, as adopted by the European Union of the state of the Group's affairs as at 31 December 2009 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.

Baker Tilly Channel Islands Limited



David Hopkins
for and on behalf of
Baker Tilly Channel Islands Limited
Chartered Accountants

Jersey

21 April 2010

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2009 £ '000	Year ended 31 December 2008 £ '000 (restated)
Revenue	7,21	43,167	51,925
Cost of Sales	22	(36,238)	(41,494)
Gross profit		6,929	10,431
Administrative expenses	22	(2,578)	(3,221)
Selling and distribution expenses	22	(2,601)	(3,342)
Other operating expenses	22	20	(645)
Profit from operations		1,770	3,223
Finance expense, net	23	(426)	(592)
Effect of foreign currency translation		(249)	(192)
Profit before taxation		1,095	2,439
Income tax expense	25	(54)	(162)
Profit for the year		1,041	2,277
Attributable to:			
Equity holders		1,064	2,320
Non-controlling interest	30	(23)	(43)
		1,041	2,277
Earnings per share:	27		
Basic		2,5	5,4
Diluted		2,5	5,4

The notes on pages 24 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009 £ '000	Year ended 31 December 2008 £ '000
Profit for the year	1,041	2,277
Other comprehensive income		
Depreciation of revaluation reserve of property, plant and equipment	127	165
Reduction of revaluation reserve	-	11
Tax effect from change in revaluation reserve	(32)	(44)
Exchange differences on translation to the presentation currency	(974)	1,730
Other comprehensive income for the year, net of tax	(879)	1,862
Total comprehensive income for the year, net of tax	162	4,139
Attributable to:		
Equity holders	194	4,188
Non-controlling interest	(32)	(49)
	162	4,139

The notes on pages 24 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Assets			
Non-Current Assets			
Property, Plant and equipment	8	8,534	10,527
Intangible assets	9	1,065	1,155
Available for sale investments	10	86	557
Deferred tax assets	11	63	117
Total non-current assets		9,748	12,356
Current assets			
Inventories	12	2,445	3,511
Trade and other receivables	13	4,738	5,643
Current taxes	34	1,031	267
Other financial assets	14	79	35
Cash and cash equivalents	15	236	691
Total Current assets		8,529	10,147
Total assets		18,277	22,503
Equity and liabilities			
Equity attributable to equity holders			
Share capital	19	4,107	4,282
Other reserves	20	(318)	823
Retained earnings		10,779	10,814
Total equity attributable to equity holders of the parent		14,568	15,919
Non-controlling interest	30	30	82
Total equity		14,598	16,001
Liabilities			
Non-Current Liabilities			
Deferred tax liabilities	11	459	697
Promissory notes		-	285
Total Non-Current Liabilities		459	982
Current Liabilities			
Bank loans and overdrafts	16	1,581	3,400
Trade and other payables	18	1,575	2,011
Taxes payable		32	79
Current income tax liabilities		32	30
Total Current Liabilities		3,220	5,520
Total equity and liabilities		18,277	22,503

These financial statements were approved and authorised for issue by the Board of Directors on 21 April, 2010 and were signed on its behalf by:

Sergey Evlanchick
 Chief Executive Officer
 21 April 2010

The notes on pages 24 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2009 £ '000	Year ended 31 December 2008 £ '000 (restated)
Cash flows from operating activities		
Profit for the year	1,041	2,277
Adjustments for:		
Exchange difference	249	192
Depreciation and amortisation	1,405	1,750
Loss of disposal of non-current assets	(7)	13
Interest income	(1)	-
Interest expense	427	592
Income tax expense	54	162
Decrease / (increase) of inventories	667	139
Decrease / (increase) in trade and other receivables	(1,290)	(1,236)
(Decrease) / increase in trade and other payables	(194)	(984)
Cash generated from operations	2,351	2,905
Interest received	1	-
Income tax paid	(150)	(264)
Net cash generated by operating activities	2202	2641
Cash flows from investing activities		
Payments for property, plant and equipment	(616)	(1,384)
Proceeds from sale of property, plant and equipment	96	62
Proceeds from sale of investments	492	-
Purchase of available for sale investments	-	(530)
Repayments / (proceeds) from loans issued	(50)	(13)
Net cash used in investing activities	(78)	(1,865)
Cash flows from financing activities		
(Repayments) / proceeds from issue of bonds net of issue costs	-	(811)
Proceeds from issue of shares, net of issue costs	-	628
Own shares acquisition	(210)	-
Dividends paid	(253)	(523)
Interest paid	(427)	(629)
Net proceeds from short term borrowing	(1,461)	361
Proceeds from issue of promissory notes	-	329
Net cash used in financing activities	(2,351)	(645)
Net increase in cash and cash equivalents	(227)	131
Effect of exchange rate changes on cash and cash equivalents	(228)	(527)
Cash and cash equivalents at the beginning of the year	691	1,087
Cash and cash equivalents at the end of the year	236	691

The notes on pages 24 to 66 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to equity holders			Total attributable to equity holders of the parent £ '000	Non-controlling interest £ '000	Total Equity £ '000
	Share capital	Other reserves	Retained earnings			
	£ '000	£ '000	£ '000			
Balance at 1 January 2008	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 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
Depreciation on revaluation of non-current assets	-	(95)	95	-	-	-
Reduction of revaluation reserve	-	(3)	-	(3)	-	(3)
Exchange differences on translation to the presentation	-	(984)	(965)	(1,949)	(9)	(1,958)
Net expense recognised directly in equity	-	(1,082)	(870)	(1,952)	(9)	(1,961)
Profit for the year	-	-	1,064	1,064	(23)	1,041
Total recognised income and expense for the year	-	(1,082)	194	(888)	(32)	(920)
Dividends paid	-	-	(253)	(253)	-	(253)
Issue of shares (net of issue cost)	(175)	(35)	-	(210)	-	(210)
Decrease of Non-controlling interest	-	-	-	-	(20)	(20)
Reduction of options reserve	-	(24)	24	-	-	-
Balance at 31 December 2009	4,107	(318)	10,779	14,568	30	14,598

The notes on pages 24 to 66 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Group and principal activities

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

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 2009 was 1,925 (2008: 2,089).

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated.

Statement of compliance

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 the 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.

Basis of consolidation

Following the early adoption by the Group of IFRS 3, Business Combinations (Revised) and IAS 27, Consolidated and Separate Financial Statements, the basis of consolidation changed with effect from 1 January 2009.

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2009.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effects of potential voting rights are considered when assessing whether the Group controls the entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared

for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2009

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the par-

ent, unless the non-controlling interest had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Changes in accounting policies and disclosures

In preparing these financial statements, the following amendments to published standards and interpretations to existing standards effective in 2009 were adopted by the Group.

- IFRS 2, Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009;
- IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted) ;
- IFRS 3, Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21;
- IFRS 7, Financial Instruments: Disclosures effective 1 January 2009;
- IFRS 8, Operating Segments effective 1 January 2009;
- IAS 1, Presentation of Financial Statements effective 1 January 2009;
- IAS 23, Borrowing Costs (Revised) effective 1 January 2009;
- IAS 32, Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising;
- IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009;
- IFRIC 9, Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009;
- IFRIC 13, “Customer Loyalty Programmes”
- IFRIC 16, “Hedges over net investment in a Foreign Operation”
- IFRIC 18, Transfers of Assets from Customers effective 1 July 2009,
- Improvements to IFRSs.

IFRS 2, Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 which clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

IFRS 3, Business Combinations (Revised) and IAS 27, Consolidated and Separate Financial Statements (Amended)

The Group adopted the revised standard from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests and have no impact on the current stature and performance of the Group due to absence of transactions and balances that could be influenced by the amendments.

The change in accounting policy was applied and had no material impact on earnings per share.

IFRS 7, Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 8, Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 7, including the related revised comparative information.

IAS 1, Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23, Borrowing Costs

The main change from the previous version is the removal of the option of immediately recognition as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The adoption of these amendments did not impact on the financial position of the Group considering that the borrowing costs are not a material item for the Group.

IAS 32, Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 9, Reassessment of Embedded Derivatives and IAS 39, Financial Instruments: Recognition and Measurement

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 13, Customer Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation

IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

IFRIC 18, Transfer of Assets from Customers

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

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

IFRS 8, Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 7.

IAS 1, Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

IAS 16, Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 20, Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not loans but direct grants.

IAS 23, Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one — the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 36, Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

IAS 38, Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2, Share-based Payment;

IFRS 7, Financial Instruments: Disclosures;

IAS 8, Accounting Policies, Change in Accounting Estimates and Error;

IAS 10, Events after the Reporting Period;

IAS 19, Employee Benefits;

IAS 27, Consolidated and Separate Financial Statements;

IAS 28, Investments in Associates;

IAS 31, Interest in Joint Ventures;

IAS 34, Interim Financial Reporting;

IAS 38, Intangible Assets;

IAS 40, Investment Properties;

IAS 39, Financial Instruments: Recognition and Measurement;

IFRIC 9, Reassessment of Embedded Derivatives;

IFRIC 16, Hedge of a Net Investment in a Foreign Operation.

Comparative information

Certain information in the consolidated income statement and the consolidated statement of cash flows has been reclassified to conform with the presentation format adopted in the current year. The restatement has no effect on the financial results or financial position of the Group.

2.2. Significant accounting policies

a) 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. Revenues and expenses are recognised on an accruals basis. The income is recognized when cash compensations are eliminated and paid to distributed after the goods sold.

b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation dis-

posed of and the portion of the cash-generating unit retained.

c) Translation from functional to presentation currency

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

- (i) the Ukrainian 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;
- (ii) the Group should use British pounds sterling as the presentational currency for its consolidated IFRS financial statements.

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

- (i) for current year figures all assets and liabilities are translated at the rate effective at the balance sheet date. Income and expense items are translated at rates approximating to those ruling when the transactions took place.
- (ii) for comparative figures all assets and liabilities are translated at the closing rate existing at the relevant balance sheet date. Income and expense items are translated at rates approximating to those ruling when the transactions took place.
- (iii) all exchange differences resulting from the application of the translation methods described above are recognised directly in equity as a separate component of equity (IAS 21.39 (c))

Actual exchange rates applied in the translation are detailed in note 2(n) below.

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief oper-

ating decision makers in order to allocate resources to the segment and to assess its performance. The Senior Management and the members of the Board of Directors of the Group are identified as the chief operating decision makers.

Segments in the consolidated financial statements are defined in accordance with the type of products sold or services provided.

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.

e) 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. 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.

f) Assets under construction

Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the 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 (h). 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.

g) 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.

The 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 in expenses in the Income Statement.

h) Impairment of assets

Assets with indefinite useful lives 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.

i) Inventories

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

j) 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 the income statement over the vesting period.

k) 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 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.

l) Value added tax (VAT)

VAT is levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0%

on export of goods and provision of works or services to be used outside Ukraine.

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. According to the Ukrainian laws, rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

m) 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.

n) 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 aver-

	Hryvnia for 1 GBP (£)	Hryvnia for 1 USD (\$)
Official rate as at December 31, 2009	12.6647	7.9850
Official rate as at December 31, 2008	11.1430	7.0700
Weighted average rate for 2009	12.2284	7.7962
Weighted average rate for 2008	9.6613	5.2842

age rate for the year was calculated based on the daily exchange rates officially set by the Bank of Ukraine.

o) 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.

p) 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 pro-

longed 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

q) 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.

r) 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.

s) 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.

t) Borrowing costs

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

u) 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 revaluations of its property, plant and equipment. Such revaluations are conducted by independent valuers who 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 life of certain 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 11 and 25.
- **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
		2009	2008	
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
Zhmerinsky Maslosyrzavod Private Enterprise SC*	Ukraine	100%	-	Acquisition
Zhmerinsky Maslosyrzavod LLC*	Ukraine	-	100%	Acquisition
Letichivsky Maslozavod Private Enterprise SC*	Ukraine	100%	-	Acquisition
Letichivsky Maslozavod OJSC*	Ukraine	-	92.7%	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC*	Ukraine	100%	100%	Acquisition
Podilskiy Dairy Plant Private Enterprise SC****	Ukraine	-	100%	Acquisition
Milk investments Private Enterprise SC*	Ukraine	100%	-	Acquisition
Avtopark Starokonstantinov LLS**	Ukraine	100%	100%	Acquisition
ATP Centr LLC**	Ukraine	100%	-	Acquisition
Tekhnopolprom Private Enterprise SC**	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
Premierproduct-Donetsk Private Enterprise SC****	Ukraine	100%	-	Acquisition
Premierproduct-Mikolaiv Private Enterprise SC****	Ukraine	100%	-	Acquisition
Premierproduct-Dnipro Private Enterprise SC****	Ukraine	100%	-	Acquisition

	Country of incorporation	Proportion of the Group's ownership interest		Method of consolidation
		2009	2008	
Premierproduct-Jitomir Private Enterprise SC****	Ukraine	100%	-	Acquisition
Premierproduct-Lviv Private Enterprise SC****	Ukraine	100%	-	Acquisition
Premierproduct-Harkiv Private Enterprise SC****	Ukraine	100%	-	Acquisition
Premierproduct-Centr Private Enterprise SC****	Ukraine	100%	-	Acquisition
Ukrproduct Group CJSC	Ukraine	100%	100%	Merger
LinkStar Limited	Cyprus	100%	100%	Merger
Dairy Trading Corporation Limited	BVI	100%	100%	Merger
St. Invest Holding LTD	BVI	100%	-	Acquisition
Ukrproduct Group LTD	Jersey			Parent

- * The companies are held through Ukrproduct Group CJSC which is a 100%-owned subsidiary of the Company
- ** The companies are held through LinkStar Limited which is a 100%-owned subsidiary of the Company
- *** Subsidiaries of Agrospletsresursy LLC.
- **** Subsidiaries of St. Invest Holding LTD, the Group's specialised distribution companies.
- ***** The company is held through Starkon-Moloko LLC which is a 100% — owned subsidiary of the Company

A reorganisation of the Group's legal structure took place in 2009 and resulted in:

- The subsidiaries of Agrospletsresursy LLC (the Group's former specialised distribution companies) transferred their principal business and assets to the subsidiaries of St. Invest Holding LTD the Group's new specialized distribution companies. (The subsidiaries of Agrospletsresursy LLC are in the process of being liquidated);
- Zhmerinsky Maslosyrzavod PE SC and Letichivsky Maslozavod PE SC ceased being subsidiaries of Zhmerinsky Maslosyrzavod LLC and Letichivsky Maslozavod OJSC respectively; and
- new subsidiaries of Ukrproduct Group CJSC and LinkStar Limited were established and these became the owners of the Group's production assets.

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

	As at December 2009 £ '000	As at December 2008 £ '000
Financial assets		
Loans and receivables:		
- trade and other receivables (excluding non-financial assets)	4,264	5,129
- cash and cash equivalents	236	691
- loans issued	79	35
Available for sale investments:		
- unquoted investments	86	557
	4,665	6,412
Financial liabilities		
Held at amortised cost:		
- bank loans	1,574	3,200
- overdrafts	7	165
- promissory notes	-	285
- other financial liabilities	-	35
- trade and other payables (excluding non-financial assets)	1,475	1,475
	3,056	5,160

General objectives, policies and processes

The Group's overall risk management programme recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group Chief Financial Officer (CFO) under policies approved by the Board of Directors. The Group CFO identifies and evaluates financial risks in close co-operation with the Group's operating units. The management board provides broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investing excess liquidity.

The Board has overall responsibility for the determination of the Group's risk management objectives and

policies 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 policies 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 the 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 disclosures 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 required by the Group.

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 enable it to meet its obligations as they fall 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.

The 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 ongoing liquidity needs. Capital expenditures are usually funded through 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 13 and 16 of 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 risk 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 is considered to be insignificant. The Group analyses the interest rate exposure on a monthly basis. As at 31 December 2009 and 2008, all Group's borrowings were at fixed rates (note 16).

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 (As at 31 December 2008 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 or a decrease of GBP 80,000).

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 Hryvnias. Currency analysis is provided in Note 32

Management believes that 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 be 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 2009 global skimmed milk powder prices started to drop. The Group took measures in order to reduce its dependence on volatile commodity prices by increasing production of other products, which were more stable.

The Group controls the prices for branded products through timely changes of sales prices according to the market development and competition. The prices for SMP in Ukraine tend to depend on the world SMP prices and if in 2009 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 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 2009, 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 2009 and at 31 December 2008 were as follows.

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Total debt	1,581	3,685
Less: Cash and cash equivalents	236	691
Net debt	1,345	2,994
Total equity	14,598	15,919
D/E ratio	9.21%	18.8%

7. Segment information

At 31 December 2009, 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 powder.
3. Other (transport services and resale of third-party goods).

The segment results for the year ended 31 December 2009 are as follows:

£ '000	Branded products	Skimmed milk powder	Other	Un-allocated	Total
Sales, Total	72,757	28,177	8,138	-	109,072
Intra-segment sales	42,893	16,151	6,861	-	65,905
Sales to external customers	29,864	12,026	1,277	-	43,167
Gross profit	6,480	267	182	-	6,929
Administrative expenses	(1,686)	(210)	(14)	(668)	(2,578)
Selling and distribution expenses	(2,218)	(29)	(24)	(330)	(2,601)
Other operating expenses	-	-	-	20	20
Profit from operations	2,576	28	144	(978)	1,770
Finance expenses	-	-	-	(426)	(426)
Loss from exchange differences	-	-	-	(249)	(249)
Profit before taxation	2,576	28	144	(1,653)	1,095
Taxation	-	-	-	(54)	(54)
Profit for the year	2,576	28	144	(1,707)	1,041
Segment assets	11,626	1,661	505	-	13,792
Unallocated corporate assets	-	-	-	4,422	4,422
Unallocated deferred tax	-	-	-	63	63
Consolidated total assets	11,626	1,661	505	4,485	18,277
Segment Liabilities	933	-	-	-	-
Unallocated corporate liabilities	-	-	-	2,287	2,287
Unallocated deferred tax	-	-	-	459	459
Consolidated total liabilities	933	-	-	2,746	3,679
Other segment information:					
Depreciation and amortisation	989	280	10	126	1,405
Capital expenditure	588	110	6	15	719

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 2008 are as follows:

£ '000	Branded products	Skimmed milk powder	Other	Un-allocated	Total
Sales, Total	93,001	20,106	9,278	-	122,385
Intra-segment sales	55,191	8,545	6,724	-	70,460
Sales to external customers	37,810	11,561	2,554	-	51,925
Gross profit	8,751	1,274	406	-	10,431
Administrative expenses	(2,310)	(241)	(49)	(621)	(3,221)
Selling and distribution expenses	(2,977)	(53)	(46)	(266)	(3,342)
Loss from exchange differences	-	-	-	(645)	(645)
Profit from operations	3,464	980	311	(1,532)	3,223
Finance expenses	-	-	-	(592)	(592)
Other operating expenses	-	-	-	(192)	(192)
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, bonds and accruals.

Secondary reporting format – geographical segments:

Sales by country (consignees)	Year ended 31 December 2009 £ '000	Sales by country (consignees)	Year ended 31 December 2008 £ '000
Ukraine	30,827	Ukraine	42,550
Singapore	4,480	Germany	1,676
Holland	1,810	Azerbaijan	1,458
Germany	1,366	Nigeria	1,461
Turkey	1,141	Turkey	660
Azerbaijan	793	Other countries	4,120
Other countries	2,750		
Total	43,167		51,925

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 2009 the Group expanded the geography of milk powder sales and continues to increase the sales of butter and processed cheeses to the Eastern Asia. The Group has no customers volume of sales to which exceeds 10% from the total amount.

The segmental information for 2008 has been restated to reflect the reclassification of certain amounts previously included in distribution expenses.

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 2008	578	7,895	5,748	3,770	17,991
Additions	1,350	-	4	12	1,366
Transfers to/from Assets Under Construction (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	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



	Assets under Construction £ '000	Land and Buildings £ '000	Plant and Machinery £ '000	Vehicles and equipment £ '000	Total £ '000
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
Cost or valuation					
Opening balance at 1 January 2009	191	7,485	5,328	4,103	17,107
Additions	585	-	-	120	705
Transfers from AUC	(194)	-	169	25	-
Exclusion from Group	(2)	-	-	(2)	(4)
Disposals	-	(2)	(90)	(183)	(275)
Exchange differences on translation to the presentation currency	(107)	(856)	(635)	(939)	(2,537)
Closing balance at 31 December 2009	473	6,627	4,772	3,124	14,996
Accumulated depreciation					
Opening balance at 1 January 2009	-	2,155	2,268	2,157	6,580
Depreciation charge	-	277	546	516	1,339
Exclusion from Group	-	-	-	(1)	(1)
Disposals	-	-	(6)	(136)	(142)
Exchange differences on translation to the presentation currency	-	(335)	(312)	(667)	(1,314)
Closing balance at 31 December 2009	-	2,097	2,496	1,869	6,462
Net book amount at 31 December 2009	473	4,530	2,276	1,255	8,534
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

Fixed assets with a net book value of GBP 6,507,967 at 31 December 2009 (GBP 5,837,414 at 31 December 2008) 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: "Podilia-Expert" LLC (Ukraine), who valued the assets using the cost and comparables method, and "BGS-Aktiv" LLC (Ukraine), who used the asset cash generating method. In accordance with IAS 16, 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. To test property, plant and equipment for impairment, the Group's business is treated as a single cash generating unit. The recoverable amount of the cash-generating unit was determined on the basis of value-in use. The amount of value in use for the cash generating unit was determined on the basis of the most recent budget estimates prepared by management and application of the income approach of valuation. Under the income approach, the discounted cash flow method has been applied with discount rate of 27.38%. No impairment was detected following the results of impairment test.

9. Intangible assets

	Computer software £ '000	Trade marks £ '000	Customer list £ '000	Goodwill £ '000	Total £ '000
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)
Cost or valuation					
At 1 January 2009	42	500	752	104	1,398
Additions	14	-	-	-	14
Disposals	(1)	-	-	-	(1)
Exchange differences on translation to the presentation currency	(13)	(44)	-	-	(57)
At 31 December 2009	42	456	752	104	1 354
Accumulated amortisation					
At 1 January 2009	24	97	122	-	243
Amortisation charge for the year	9	23	34	-	66
Disposals	(1)	-	-	-	(1)
Exchange differences on translation to the presentation currency	(11)	(9)	1	-	(19)
At 31 December 2009	21	111	157	-	289
Net book amount at 31 December 2009	21	345	595	104	1,065
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

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

Computer software	4 — 8 years;
Trademarks	16 years;
Customer list	16 years.

Acquired intangible assets and Goodwill

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

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 2010, 7% for 2011 and 11% for 2012 — 2013.

The Group regularly monitors the carrying value of its acquired intangible assets, goodwill and events or changes in circumstances that indicate there may be an impairment. The result of the review, undertaken at 31 December 2009, 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, 2009 the Goodwill of Letichiv Dairy Plant did not lose any of its value. Besides, this asset has unlimited useful life duration and has been tested as part of Group’s single generating unit.

The Group’s production plans are based on the established practice of production and distribution of dairy products in the raw material zone of Letichiv Dairy Plant and it foresees the use of this asset for 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 into consideration all the factors mentioned above, the Group’s Management does not see any reasons for Goodwill impairment as of December 31, 2009 and considers that the amount of GBR 0.1 million is 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 2009 £ '000	Total as at 31 December 2008 £ '000
UAH	-	86	86	557
USD	-	-	-	-
EUR	-	-	-	-
	-	86	86	557

11. Deferred tax

	As at 31 December 2009 £ '000		As at 31 December 2008 £ '000	
Deferred tax asset at the beginning of the year	(117)	-	(51)	-
Deferred tax liability at the beginning of the year	-	697	-	752
Deferred tax asset recognised				
in income statement during the year	42	-	(65)	-
Deferred tax liability recognised				
in income statement during the year	-	(78)	-	86
Reduction in deferred tax due to decrease				
in property, plant and equipment revaluation				
reserve because of amortisation	-	(32)	-	(78)
Exclusion from Group	-	(14)	-	-
Exchange differences on translation				
to the presentation currency	12	(114)	(1)	(63)
Deferred tax asset at the end of the year	(63)	-	(117)	-
Deferred tax liability at the end of the year	-	459	-	697

The tax rate used in deferred tax calculations is 25% (2008: 25%).

12. Inventories

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Raw materials	733	636
Finished goods	1,223	2,128
Other inventories	489	747
	2,445	3,511

13. Trade and other receivables

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Trade receivables	4,221	4,738
Other receivables	367	391
Prepayments	150	514
	4,738	5,643

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

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

Maturity of trade and other receivables

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
In less than 1 year	4,738	5,643
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	-	-
	4,738	5,643

As at 31 December 2009 there were no trade and other receivables past due not impaired (2008: nil).

14. Other financial assets

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Loans issued to employees	79	35
	79	35

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 2009 £ '000	As at 31 December 2008 £ '000
Cash — in UAH	7	12
Bank — in UAH	162	368
Cash — in other currencies	2	-
Bank — in other currencies	65	311
	236	691

16. Financial liabilities

Bank loans and overdrafts

Bank loans include a secured 3-year credit line of up to UAH 40,000,000 (GBP 3,160,000) from OTP Bank CJSC denominated in Ukrainian Hryvnia (UAH). As at 31 December 2009 an amount of GBP 1,574,000 was drawn from this credit line (2008: GBP 3,199,551). The average interest rate as at 31 December 2009 was 19.0% (2008: 17.0%). This loan is secured by the assets of OJSC Molochnik, Milk investments Private Enterprise and Starkon-Moloko LLC.

As at December 31, 2009 the promissory notes were retired due to their issuer being deconsolidated from the Group.

Maturity of financial liabilities

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

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
On demand	7	165
In less than 1 year	1,574	3,235
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	285
	1,581	3,685

Interest rate profile of financial liabilities

The Group's has borrowing facilities available at 31 December 2009 in which all conditions have been met.

	Floating rate £ '000	Fixed rate £ '000	Total as at 31 December 2009 £ '000	Total as at 31 December 2008 £ '000
On demand	7	-	7	165
Expiry within 1 year	-	1,574	1,574	3,235
Expiry within 1 and 2 years	-	-	-	-
Expiry in more than 2 years	-	-	-	285
	7	1,574	1,581	3,685

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 2009 £ '000	Total as at 31 December 2008 £ '000
UAH	7	1,574	1,581	3,685
	7	1,574	1,581	3,685

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

	Book value as at 31 December 2009 £ '000	Fair value as at 31 December 2009 £ '000	Book value as at 31 December 2008 £ '000	Fair value as at 31 December 2008 £ '000
Bank loans	1,574	1,574	3,200	3,200
Bank overdrafts	7	7	165	165
Promissory notes	-	-	285	285
Other financial liabilities	-	-	35	35
	1,581	1,581	3,685	3,685

17. Uncancellable lease commitments

As at 31 December 2009, the operating lease commitments on uncancellable lease for all the companies included into the consolidation totalled GBP 2,032 (2008: GBP 485,000).

Maturity analysis of uncancellable lease commitments

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Not later than 1 year	2	404
Later than one year but not later than five years	-	81
Later than five years	-	-
	2	485

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

18. Trade and other payables

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Trade payables	1,190	1,235
Other payables	113	160
Prepayments	52	372
Accruals	220	244
	1,575	2,011

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

19. Share capital

	Authorised			
	As at 31 December 2009 Number '000	As at 31 December 2009 £ '000	As at 31 December 2008 Number '000	As at December 2008 £ '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			
	2009 Number '000	2009 £ '000	2008 Number '000	2008 £ '000
Ordinary shares of 10p each				
At beginning of the year	42,818	4,282	41,645	4,164
Shares issued on the exercise of the warrants	-	-	1,173	118
Own shares acquired	(1,750)	(175)	-	-
At end of the year (excluding shares held as treasury shares)	41,068	4,107	42,818	4,282

	Held as treasury shares			
	2009 Number '000	2009 £ '000	2008 Number '000	2008 £ '000
Ordinary shares of 10p each				
At beginning of the year	-	-	-	-
Own shares acquired	1,750	175	-	-
At end of the year	1,750	175	-	-

In July 2009 the Company acquired 1,750,250 ordinary shares of 10 pence each at 12 pence per share. These shares will be held as treasury shares. The total consideration paid was GBP 210,000.

As at 31 December 2009 the Company held a total of 1,750,250 Ordinary Shares as treasury shares and the total number of Ordinary Shares in issue (excluding shares held as treasury shares) was 41,067,599.

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 2008	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
Own shares acquisition	(35)	-	-	-	-	(35)
Depreciation on revaluation of property, plant and equipment	-	-	-	-	(95)	(95)
Reduction of revaluation reserve	-	-	-	-	(3)	(3)
Reduction of options reserve	-	-	(24)	-	-	(24)
Exchange differences on translation to the presentation currency	1	-	-	(817)	(168)	(984)
Balance at 31 December 2009	4,588	(1,427)	-	(4,641)	1,162	(318)

The reduction in the revaluation reserve is due to the sale of property, plant and equipment which has 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.
Non-controlling 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. Revenue

	31 December As at 2009 £ '000	31 December As at 2008 £ '000
General revenue	43,679	52,312
Branded (including bonuses)	30,375	38,197
Charge of bonuses	(511)	(386)
Branded (excluding bonuses)	29,864	37,811
SMP	12,026	11,561
Other	1,277	2,553
Total revenue (excluding bonuses)	43,167	51,925

Bonuses are compensation granted to Group's main customers within its distribution network.

Bonuses are accounted for based on a fixed percentage of the product sold by customers who comprise retail networks and distributors. Cash compensation is paid on a periodic basis during the year.

22. Expenses by nature

	31 December As at 2009 £ '000	31 December As at 2008 £ '000
Raw materials and consumables used, cost of goods sold	32,024	33,580
Wages and salaries	3,132	4,218
Social security costs	1,018	1,355
Depreciation of property, plant and equipment	1,339	1,684
Amortisation of intangible assets	66	66
Operating lease expense (Property)	439	536
Loss on disposal of fixed assets	(7)	13
Exchange difference	249	192
Audit fees	73	72
Other expenses	3,313	7,565
Total expenses except for tax and finance	41,646	49,281

23. Finance income and expense

Recognised in income statement

	31 December	As at 2009 £ '000	31 December	As at 2008 £ '000
Finance income				
Interest income on loans to related parties		1		-
Total interest income		1		-
Finance expense				
Interest expense on bank loans		(427)		(563)
Interest expense on bonds		-		(27)
Other finance expense		-		(2)
Total finance expense		(427)		(592)
Net finance expense recognised in income statement		(426)		(592)

24. Employee benefit expense

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Wages and salaries (including key management personnel)	3,132	4,218
Social security costs	1,018	1,355
	4,150	5,573

Remuneration of key management personnel

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Salaries	247	276
	247	276

The key management personnel are those persons remunerated by the Group who are members of the Board of Directors of the Company (Ukrproduct Group Ltd) and Senior Management, as disclosed on page 12 and 13.

25. Income tax expense

Income tax comprised the following:

	Year ended 31 December 2009 £ '000	Year ended 31 December 2008 £ '000
Current tax charge — Ukraine	72	208
Current tax charge — non-Ukraine	18	11
Deferred tax relating to the origination and reversal of temporary differences	(36)	(57)
Income tax charge for the year	54	162

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% (2008: 25%).

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Profit before tax — Ukraine	(834)	(898)
Profit before tax — non-Ukraine	1,929	3,337
	1,095	2,439
Tax calculated at domestic tax rates applicable to profits in the relevant countries	58	102
Expenses not deductible for tax purposes	(4)	60
Tax charge	54	162

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 2009 £ '000	As at 31 December 2008 £ '000
Profit before tax:		
Ukraine	(834)	(898)
Cyprus	584	1,017
Other (BVI, Jersey)	1345	2,320
Profit before tax, total	1,095	2,439
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (25%)	-	-
Cyprus (10%)	58	102
BVI, Jersey (0%)	-	-
	58	102
Net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	36	150
Cyprus	(40)	(90)
BVI, Jersey	-	-
	(4)	60
Tax charge		
Ukraine	36	151
Cyprus	18	11
BVI, Jersey	-	-
	54	162
The weighted average applicable tax rate		
Ukraine	Nil	Nil
Cyprus	10%	10%
BVI, Jersey	Nil	Nil
	5.3%	4.2%

The weighted average applicable tax rate was 5.3% (2008: 4.2%). 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.

26. Share-based payments

The Company operates an equity-settled share based remuneration scheme for employees. During the period under review, all options granted to the Directors in the prior periods and outstanding as at 31 December 2008 were lapsed. The Company has thus written-off the share options reserve outstanding as at 31 December 2008 in the amount of GBP 24,000.

	2009 Weighted average exercise price (£)	2009 Number	2008 Weighted average exercise price (£)	2008 Number
Outstanding at beginning of the year	0.570	130,290	0.570	612,028
Granted during the year	0.128	130,290	-	-
Forfeited during the year	-	-	0.570	481,738
Exercised during the year	-	-	-	-
Lapsed during the year	0.570	130,290	-	-
Outstanding at the end of the year	0.128	130,290	0.570	130,290
Exercisable at the end of the year	0.128	130,290	0.570	130,290

During the period under review the Company has granted share options to the Directors. All options granted to the Directors are exercisable over a period of four years.

Taking into account the fair value of options granted estimated at the grant date (GBP0,000) no remuneration charge was recognised in statement of comprehensive income in 2009.

The fair value of options granted in 2009 has been calculated based on the following data.

Item	2009
Option pricing model used	Adjusted Black-Scholes
Weighted average share price at the grant date	0.1275
Exercise price	0.1280
Weighted-average contractual life, years	4.0
Expected volatility	25%
Expected dividend yield	5%
Expected dividend growth rate	0%
Weighted-average risk-free interest rate	1.92%

27. 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 2009	31 December 2008
Net profit attributable to ordinary shareholders, £'000	1,064	2,320
Weighted number of ordinary shares in issue	41,997,869	42,817,849
Basic earnings per share, pence	2.5	5.4
Diluted average number of shares	41,997,869	42,817,849
Diluted earnings per share, pence	2.5	5.4

28. Warrants

During the period under review the Company did not grant warrants to any parties. At 31 December 2009, no warrants were exercisable (2008 : nil).

29. Dividends

As at 17 April 2010, the Board of Directors proposed the final dividend payment of 0.20 pence per ordinary share for the year ended 31 December 2009 in the amount of GBP 82,000 which would lead to 0.40 pence per ordinary share for the full year in the amount of GBP164,000. If approved at the AGM, the final dividend will be paid on 16 July 2010 to the shareholders on the register as at 11 June 2010.

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 2009 £ '000	Year ended 31 December 2008 £ '000
Final dividend for 2008 of 0.40 pence (2007 — 0.82 pence) per ordinary share proposed and paid during the year relating to the previous year's results	172	351
Interim dividend of 0.20 pence (2008 — 0.40 pence) per ordinary share paid during the year	82	172
Total	254	523

The final dividend for the year ended 31 December 2009 has not been accrued at the balance sheet date.

30. Non-controlling interest

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at 1 January	82	131
Net profit for the period	(23)	(43)
Decrease of Non-controlling interest	(20)	-
Exchange differences on translation to the presentation currency	(9)	(6)
Balance at 31 December	30	82

As at 31 December 2009 a Non-controlling interest of 2.40% (2008: 2.40%) was held in Molochnik OJSC. Decrease of Non-controlling interest is connected with exclusion from the Group of Letichivsky Maslozavod OJSC (As at 31 December 2008 : 7.3%).

31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and balances between the Group companies and other related parties are set out below. Remuneration of key management personnel is disclosed in note 24.

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 2009 £ '000	Year ended 31 December 2008 £ '000
Sales	143	71
Purchases	108	69

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

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Receivables and prepayments	113	131
Trade and other payable	(51)	(59)

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

In 2009, 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.

32. Currency analysis

Currency analysis for the period ended 31 December 2009 is set out below:

£ '000	UAH	USD	RUR	GBP	EUR	Total
Non-Current Assets						
Property, Plant and equipment	8,504	30	-	-	-	8,534
Intangible assets	21	345	-	699	-	1,065
Available for sale investments	66	20	-	-	-	86
Deferred tax assets	63	-	-	-	-	63
Current assets						
Inventories	2,445	-	-	-	-	2,445
Trade and other receivables	4,310	425	-	3	-	4,738
Current taxes	1,031	-	-	-	-	1,031
Other financial assets	79	-	-	-	-	79
Cash and cash equivalents	170	17	-	40	9	236
Total assets	16,689	837	-	742	9	18,277
Non-Current Liabilities						
Deferred tax liabilities	459	-	-	-	-	459
Current Liabilities						
Bank loans and overdrafts	1,581	-	-	-	-	1,581
Trade and other payable	1,506	-	-	-	69	1,575
Taxes payable	32	-	-	-	-	32
Current income tax liabilities	32	-	-	-	-	32
Total Liabilities	3,610	-	-	-	69	3,679

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
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	70	-	-	-	-	70
Total Liabilities	6,400	-	12	90	-	6,502

33. Notes supporting the consolidated cash flow statement

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

	As at 31 December 2009 £ '000	As at 31 December 2008 £ '000
Cash available on demand	236	691
	236	691

In the period under consideration, there were no non-cash transactions (2008 — nil).

34. Current taxes

	Year ended 31 December 2009	Year ended 31 December 2008
VAT receivable	1029	266
Other prepaid taxes	2	1
Total	1031	267

At the reporting date the Group has accumulated a substantial tax asset being VAT receivable, with 79 % of this amount related to OJSC Molochnik. Management intends to recover this amount by way of offsetting it against VAT liabilities that will arise in OJSC Molochnik from the regular business activities during the first half of 2010.

35. Post balance sheet events

There were no significant post balance sheet events.

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Financial Calendar

31 December 2009	Financial year end
21 April 2010	Preliminary Announcement of full year 2009 results
24 June 2010	Annual General Meeting
16 July 2010	Final Dividend Payment
September 2010	Announcement of first half of 2009 results
31 December 2009	Financial year end

Analysis of shareholding – at 31 December 2009

Size of shareholdings	Number of holders	% of total	Total holdings, '000	% of total
Up to 5000 shares	11	16,9%	20 415,00	0,05%
5001 to 50000 shares	26	40,0%	473 359,00	1,15%
50001 to 200000 shares	13	20,0%	1 772 267,00	4,32%
Over 200000 shares	15	23,1%	38 801 558,00	94,48%
Total	65	100%	41 067 599,00	100,00%

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 31 December 2009, 67.5% of the common shares of the company.

Share price (pence) – year to 31 December 2009

At end of year: 24 p	Lowest: 7.5 p	Highest: 32.5 p
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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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