Dragon – Ukrainian Properties & Development plc

Consolidated financial statements
30 June 2012

These consolidated financial statements contain 50 pages

Contents

Consolidated statement of financial position 5

Consolidated statement of comprehensive income 7

Consolidated statement of cash flows 8

Consolidated statement of changes in equity 10

Notes to the consolidated financial statements 12

(in thousands of USD)	*Note*	**30 June 2012**	31 December 2011
Assets			
Non-current assets			
Investment properties	*4*	**40,691**	77,039
Prepayments for land	*5*	**65,400**	67,100
Investments in associates	*6*	**46,247**	43,863
Long-term loans receivable	*7*	**878**	920
Property and equipment		**82**	20
Intangible assets		**26**	14
Total non-current assets		**153,324**	188,956
Current assets			
Inventories	*8*	**44,960**	10,248
Trade and other receivables	*9*	**2,411**	1,749
VAT recoverable		**976**	744
Prepaid income tax		**39**	59
Cash and cash equivalents	*10*	**25,256**	28,704
Total current assets		**73,642**	41,504
Total assets		**226,966**	230,460

The consolidated statement of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 12 to 50.

(in thousands of USD)	*Note*	**30 June 2012**	31 December 2011
Equity and Liabilities			
Equity	*11*		
Share capital		**2,187**	2,187
Share premium		**277,265**	277,265
(Accumulated losses) retained earnings		**(63,104)**	(61,560)
Total equity attributable to equity holders of the Parent Company		**216,348**	217,892
Non-controlling interest		**(4,958)**	(4,582)
Total equity		**211,390**	213,310
Non-current liabilities			
Finance lease liabilities	*12*	**1,411**	3,098
Deferred tax liabilities	*13*	**10,527**	10,777
Total non-current liabilities		**11,938**	13,875
Current liabilities			
Trade and other payables	*14*	**3,599**	3,240
Current portion of finance lease liabilities	*12*	**35**	31
Income tax payable		**4**	4
Total current liabilities		**3,638**	3,275
Total liabilities		**15,576**	17,150
Total equity and liabilities		**226,966**	230,460

These consolidated financial statements were approved by the Board of Directors on 28 September 2012 and were signed on its behalf by:

Chairman of the board — Aloysius Wilhelmus Johannes Van der Heijden

Non-executive director — Rory Macnamara

The consolidated statement of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 12 to 50.

(in thousands of USD)	*Note*	**For six months ended 30 June 2012**	For six months ended 30 June 2011
Rental income from investment property		**11**	25
Profit from sales of investment properties		**276**	217
Loss on revaluation of investment properties	*4*	**(417)**	(2,272)
Impairment loss on prepayments for land	*5*	**(1,750)**	-
Write-down of trading property to net realisable value	*8*	**(100)**	(900)
Management fee	*15*	**(1,635)**	(2,222)
Administrative expenses	*17*	**(1,760)**	(870)
Other income		**20**	**-**
Other expenses		**(5)**	(103)
Loss from operating activities		**(5,360)**	(6,125)
Gain on disposal of subsidiary		**7**	**-**
Net finance costs	*18*	**(76)**	(279)
Share of the profit of associates	*6*	**3,257**	3,295
Profit (loss) before income tax		**(2,172)**	(3,109)
Income tax benefit	*13*	**250**	175
Net loss and total comprehensive loss for the period		**(1,922)**	(2,934)
Attributable to:			
Equity holders of the Parent Company		**(1,546)**	(2,661)
Non-controlling interest		**(376)**	(273)
Net loss and total comprehensive loss for the period		**(1,922)**	(2,934)
(Loss) earnings per share			
Basic (loss) earnings per share (in USD)	*20*	**(0.01)**	(0.02)
Diluted (loss) earnings per share (in USD)	*20*		(0.02)

The Directors believe that all results derive from continuing activities.

The consolidated statement of comprehensive income are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 12 to 50.

(in thousands of USD)	*Note*	**For six months ended 30 June 2012**	For six months ended 30 June 2011
Cash flows from operating activities			
Loss before income tax		**(2,172)**	(3,109)
Adjustments for:			
Write-down of trading property to net realisable value	*8*	**100**	900
Gain on disposal of subsidiary		**(7)**	-
Loss on revaluation of investment properties	*4*	**417**	2,272
Impairment loss on prepayments for land	*5*	**1,750**	-
Depreciation		**21**	20
Share of the profit of associates	*6*	**(3,257)**	(3,295)
Unrealised currency exchange losses		**(24)**	-
Net financial (income) loss	*18*	**(19)**	279
Operating cash flows before changes in working capital		**(3,191)**	(2,933)
Change in inventories		**(1,153)**	(5)
Change in trade and other receivables		**1,347**	611
Change in trade and other payables		**381**	110
Share-based payments	*16*	**2**	4
Interest paid		**(116)**	-
Cash flows (used in) from operating activities		**(2,730)**	(2,213)

The consolidated statement of cash flows are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 50.

(in thousands of USD)	*Note*	**For six months ended 30 June 2012**	For six months ended 30 June 2011
Cash flows from investing activities			
Interest received		**10**	303
Acquisition and development of investment property	*4*	**(1,524)**	(2,573)
Acquisition of property, equipment and intangible assets		**(39)**	-
Prepayments for land	*5*	**(50)**	-
Loans granted		**-**	(2,005)
Repayments of loans		**51**	-
Dividends received	*6*	**873**	-
Proceeds from subsidiaries sold		**4**	-
Repayments of financial lease liability		**(67)**	-
Cash flows (used in) from investing activities		**(742)**	(4,275)
Cash flows from financing activities		**-**	-
Net decrease in cash and cash equivalents		**(3,472)**	(6,488)
Cash and cash equivalents at the beginning of the period		**28,704**	44,915
Effect of foreign exchange fluctuation on cash balances		**24**	3
Cash and cash equivalents at 30 June		**25,256**	38,430

The consolidated statement of cash flows are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 50.

	Attributable to equity holders of the Company					
(in thousands of USD)	**Share capital**	**Share premium**	**(Accumulated losses) retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2011	**2,354**	**282,077**	**12,404**	**296,835**	**(1,058)**	**295,777**
Total comprehensive income (loss) for the period						
Net profit (loss)	-	-	(73,970)	(73,970)	(3,524)	(77,494)
Total comprehensive income (loss) for the year	-	-	(73,970)	(73,970)	(3,524)	(77,494)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Own shares acquired	(167)	(4,812)	-	(4,979)	-	(4,979)
Share-based compensation	-	-	6	6	-	6
Total contributions by and distributions to owners	(167)	(4,812)	6	(4,973)	-	(4,973)
Balance at 31 December 2011	**2,187**	**277,265**	**(61,560)**	**217,892**	**(4,582)**	**213,310**

The consolidated statement of changes in equity are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 50.

	Attributable to equity holders of the Company					
(in thousands of USD)	**Share capital**	**Share premium**	**(Accumulated losses) retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2012	**2,187**	**277,265**	**(61,560)**	**217,892**	**(4,582)**	**213,310**
Total comprehensive income (loss) for the period						
Net profit (loss)	-	-	(1,546)	(1,546)	(376)	(1,922)
Total comprehensive income (loss) for the year	-	-	(1,546)	(1,546)	(376)	(1,922)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based compensation	-	-	2	2	-	2
Total contributions by and distributions to owners	-	-	2	2	-	2
Balance at 30 June 2012	**2,187**	**277,265**	**(63,104)**	**216,348**	**(4,958)**	**211,390**

The consolidated statement of changes in equity are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 50.

1 Background

(a) Organisation and operations

Dragon – Ukrainian Properties & Development plc (the Parent Company) was incorporated in the Isle of Man on 23 February 2007. The Parent Company's registered office is Standard Bank House, One Circular Road, Douglas, Isle of Man, IM1 1SB and its principal place of business is Ukraine.

On 1 June 2007 the Parent Company raised USD 208 million through an initial public offering on the Alternative Investment Market (AIM) of the London Stock Exchange. On 29 November 2007 the Parent Company completed a secondary placing on AIM and raised USD 100 million.

The consolidated financial statements as at 30 June 2012 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

The main activities of the Group are investing in the development of new properties and redevelopment of existing properties in Ukraine.

(b) Business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Ukraine has further increased the level of economic uncertainty in the environment.

These consolidated financial statements reflect the Directors' current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from the Directors' assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for investment properties and financial instruments at fair value though profit or loss, which are carried at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in thousands of US dollars (USD).

The Group consists of entities that are domiciled in Ukraine, Cyprus, British Virgin Islands and Isle of Man, and as a result different entities are using currencies of different countries.

The Directors believe that the most appropriate functional and presentation currency for all consolidated entities and these consolidated financial statements is US dollars. All funds raised by the

Group are in US dollars, and all project developments are based on US dollars. Deposits and prepayments are also in US dollars. All financial information presented in US dollars is rounded to the nearest thousand.

For Ukrainian entities there are certain transactions in Ukrainian Hryvnia, which is not a convertible currency.

(d) Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following notes:

- note 4 - valuation of investment properties
- note 5 – valuation of prepayments for land
- note 8 – net realisable value of trading property
- note 16 - measurement of share-based payments
- notes 3(d) and 3(h) - classification between investment properties and inventories

(e) Changes in accounting policies

From 1 January 2012, the Company adopted *Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12* that prescribes change in the accounting policy on measuring deferred tax arising from investment property that is measured using the fair value model in IAS 40 *Investment Property*.

The change in accounting policy did not have an impact on these consolidated financial statements since previously the Company used a presumption that the carrying amount of investment property will be recovered entirely through sale, that is in line with the requirements of the Amendment.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In

assessing control, potential voting rights arising from presently exercisable call options are taken into account.

The financial results of subsidiaries are included in the consolidated and Parent Company financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

The results of subsidiaries acquired during the year are included in profit or loss from the effective date of acquisition. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Any premium and discount arising on the acquisition of a non-controlling interest in a subsidiary represents the excess/deficiency of the cost of the additional investment over/under the carrying amount of the net assets acquired at the date of exchange. The effect of these transactions is recognised directly in equity.

In the financial statements of the Parent Company subsidiaries are accounted for at cost less impairment.

Consolidated subsidiaries include the following:

Name	Country of incorporation	Cost		% of ownership	
		30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
(in thousands of USD, except for % of ownership)					
Bi Dolyna Development LLC	Ukraine	**28**	28	**100%**	100%
EF Nova Oselya LLC	Ukraine	**48**	48	**100%**	100%
Glangate LTD	Cyprus	**2**	2	**100%**	100%
Grand Development LLC	Ukraine	**-**	-	**100%**	100%
J Komfort Neruhomist LLC	Ukraine	**1,096**	1,096	**100%**	100%
Korona Development LLC	Ukraine	**1,134**	1,134	**100%**	100%
Landshere LTD	Cyprus	**3**	3	**95%**	95%
Landzone LTD	Cyprus	**6,503**	6,503	**100%**	100%
Linkdell LTD	Cyprus	**3**	3	**100%**	100%
Linkrose LTD	Cyprus	**3**	3	**100%**	100%
Mountcrest LTD	Cyprus	**64**	64	**100%**	100%
OJSC "Dom byta "Obolon"	Ukraine	**16,470**	16,470	**98%**	98%
Riverscope LTD	Cyprus	**3**	3	**95%**	95%
Startide LTD	Cyprus	**3**	3	**100%**	100%
Ukrainian Development Holding LTD	Cyprus	**-**	1	**0%**	100%
Ukrainian Properties LTD	Cyprus	**-**	1	**0%**	100%
Blueberg Trading Ltd	BVI	**-**	-	**100%**	100%
Stenfield Finance Ltd	BVI	**-**	-	**100%**	100%
Noviy Region LLC	Ukraine	**4,507**	4,507	**100%**	100%
Rivnobud LLC	Ukraine	**4,471**	4,471	**100%**	100%
Commercial project LLC	Ukraine	**1**	1	**100%**	100%
Riviera Villas LLC	Ukraine	**-**	-	**100%**	100%
Closed investment fund “Development”(note 3(a)(ii))	Ukraine	**178**	-	**100%**	0%

***(ii)* Special Purpose Entity**

On 3 March 2012 Startide Ltd bought 14,300 investment certificates of the closed non-diversified venture investment fund "Development" (Fund "Development") for a total consideration of USD 178 thousand thus obtaining control over its operations. The Group intends to use Fund "Development" as a financial vehicle for its project "Obolon Towers"

***(iii)* Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. In certain cases when the Group has less than 20% of the voting power of another entity, this entity is still accounted for as an associate on the basis of significant influence (see note 6).

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation to or has made payments on behalf of the investee.

In the financial statements of the Parent Company investments in associates are accounted for at cost less impairment.

***(iv)* Jointly controlled operations**

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

***(v)* Transactions eliminated on consolidation**

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency and operations

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred.

Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified to held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise the following classes of assets: trade and other receivables as presented in note 9, loans receivable as presented in note 7and cash equivalents as presented in note 10.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i), and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(ii) **Non-derivative financial liabilities**

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities in the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables as presented in note 14 and finance lease liability as presented in note 12.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are immediately cancelled and the total number of shares is reduced by this purchase.

(iv) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

(d) Investment properties

Investment properties are those that are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment properties principally comprise freehold land, leasehold land and investment properties held for future redevelopment. Leasehold of land held under operating lease is classified and accounted for as investment property when it meets the definition of investment property.

(i) Initial measurement and recognition

Investment properties are measured initially at cost, including related acquisition costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

If the Group uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. Therefore the part that is rented out is investment property. If the portions cannot be sold or leased out separately, the property is investment property only if the company-occupied portion is insignificant.

(ii) Subsequent measurement

Subsequent to initial recognition investment properties are stated at fair value. Any gain or loss arising from a change in fair value is included in profit or loss in the period in which it arises.

When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured at fair value, and is not reclassified to property and equipment during the redevelopment.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised as gain or loss in profit or loss.

It is the Group's policy that an external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being appraised, values the portfolio every six months. The fair value is the amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The valuation is prepared in accordance with the practice standards contained in the Appraisal and Valuations Standards published by the Royal Institution of Chartered Surveyors (RICS) or in accordance with International Valuation Standards published by the International Valuations Standards Committee.

The Directors believe that there is no transparent, active market in Ukraine for land because there are few transactions and each transaction tends to be unique and subject to significant negotiations. Therefore, the Directors have chosen to use a valuation model to estimate fair value.

After discussion with the independent appraiser, and considering the types of investment properties owned by the Group and their intended development, the Directors chose to estimate the fair value of land using the "residual land value" income approach. Under this method, the fair value of the freehold and leasehold interest in land equals the residual value of land under development (assuming that the developer will meet the terms set for development).

The residual value of land is determined based on the value for which such land could be sold in the market, which is estimated by appraisers to be the fair value of the completed project less cost to complete and an appropriate developer's profit. The residual value of land is equal to future cash flows generated by the developed property within the forecasting period plus terminal value of the property less development costs and developer's interest.

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

(iii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- vehicles and equipment — 5-7 years
- fixture and fittings — 3 years

(f) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

Initial measurement and recognition

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for the Directors' judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest

method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year on the reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share-based payments

The fair value at the date of grant of options granted to Directors and employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the Directors and employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

For equity settled share-based payment transactions other than transactions with Directors and employees the Group measures the goods or services received at their fair value, unless that fair value cannot be estimated reliably. If this is the case the Group measures their fair values and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash

flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Rental income from investment properties

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement contains a right to use the asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, currency exchange gains, and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance costs comprise fair value losses on financial assets at fair value through profit or loss and currency exchange losses.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future, and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of Ukraine, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise warrants and share options.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Directors determined that the sole segment in which the Group operates is property development. For operational purposes the Board analyses the Group's activity on the basis of individual projects and they are described in detail in the Annual Report. Budgeting and comparison of actual versus budgeted results is also done on the basis of individual projects.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2012, and have not been applied in preparing these consolidated and Parent Company financial statements. Of these standards and interpretations, potentially the following will have an impact on the Group's operations. The Group plans to adopt these standards and interpretations when they become effective.

- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance. The Group does not intend to adopt this standard early.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively. The amendment is not expected to have significant effect on the consolidated and Parent Company financial statements.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated and Parent Company financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new standard is not expected to have a significant effect on the consolidated and Parent Company financial statements. The Group does not intend to adopt this standard early.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new standard is expected to result in additional disclosures in the consolidated and Parent Company financial statements. The Group does not intend to adopt this standard early.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact the new disclosures will have on the consolidated and Parent Company financial statements.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The amendment is not expected to have significant effect on the consolidated and Parent Company financial statements.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided

the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the amendment to this standard on its financial position or performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendment is not expected to have significant effect on the consolidated and Parent Company financial statements.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Investment properties and property under construction

Movements in investment properties for the six months ended 30 June 2012 and for the year ended 31 December 2011 are as follows:

(in thousands of USD)	*Note*	**Freehold land**	**Leasehold land**	**Total**
At 31 December 2010	*4*	**36,989**	**42,873**	**79,862**
Construction		**6,673**	**1,763**	**8,436**
Disposal of investment property		**(1,968)**	**-**	**(1,968)**
Fair value loss on revaluation		**(4,983)**	**(4,308)**	**(9,291)**
At 31 December 2011	*4*	**36,711**	**40,328**	**77,039**
Construction		**1,523**	**1**	**1,524**
Disposal of investment property		**(2,180)**	**-**	**(2,180)**
Transfer to Trading Properties under construction		**-**	**(33,658)**	**(33,658)**
Fair value loss on revaluation		**(416)**	**(1)**	**(417)**
Changes in finance lease conditions		**-**	**(1,617)**	**(1,617)**
At 30 June 2012		**35,637**	**5,054**	**40,691**

Property is classified in accordance with the intention of the Directors for its future use. The point in time when the intention of the Directors is finalised is the date of start of construction. When construction starts, freehold land, leasehold land and investment properties held for future

redevelopment are reclassified into investment properties under development (IAS 40) or inventories (IAS 2) in accordance with the intention to use. The Group's intention with regards to the Obolon project is the construction of a multi-storey business class residential complex with office and retail premises that will be sold upon completion of construction. Having received the construction permit and obtained the permit of KyivEnergo for removal of the power substation from the site the Group has demolished the existing service centre building and started preliminary ground works. According to the Group's accounting policy Investment properties are transferred to Trading Properties under construction when the Group ceased to receive rental income from the properties in question and when the construction works have started on the site. From the date of acquisition until 31 December 2011 the Obolon project was accounted for as an Investment property. Upon the start of construction work in 2012 the project has been reclassified to Inventory and transferred to Trading Properties under construction.Due to changes in the finance lease conditions the Group recognised the decrease in finance lease liabilities of subsidiary Novyy Region LLC. The changes in finance lease conditions are the following:

- reduction of rental rate from 10% to 5% ;
- increase of correction coefficient from 0.65 to 0.75, applied to "normative valuation" ("normative valuation" – is a valuation of different types of land according to the methodology and rates set up by the government regulations) in accordance with decision of Kremenchuk City Council from 29 May 2012

Stenfield Finance Limited (a subsidiary) and Intendancy Limited (third party) entered into a Project Development Agreement on 12 December 2007. It was agreed to undertake and bear all design, engineering and construction costs as well as the costs incurred in connection with the maintenance and development of the land plots and facilities on the Riviera Villas project (one of the Group's projects) in the following proportion:

- Stenfield Finance Limited is to bear or reimburse 58.21% of costs incurred in the process of land plot development and Intendancy Limited 41.79%;
- Stenfield Finance Limited is to bear or reimburse 59.56% of costs incurred in the process of real estate construction and Intendancy Limited 40.44%.

Irrespective of legal titles that may be attached to the land plots of each of the parties all benefit from sale or usage of investment property will be split in the following proportion: Stenfield Finance Limited is entitled to 59.56% of all benefits and Intendancy Limited is entitled to 40.44% of all benefits.

The Directors engaged registered independent appraiser CB Richard Ellis LLC, having a recognised professional qualification and recent experience in the location and categories of the projects being valued, to assist with the estimation of fair value.

The estimation of fair value is made using a net present value calculation based on certain assumptions, the most important of which as at 30 June 2012 are as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 9 to USD 27 per m^2
- development costs based on current construction prices
- discount rate 10-13 %
- developer's profit ranging from 20% to 28%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

As at 31 December 2011 respective assumptions were as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 9 to USD 48 per m^2
- development costs based on current construction prices
- discount rate -10%
- developer's profit ranging from 20% to 30%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

5 Prepayments for land

During six months to 30 June 2012 the Group made prepayments for land acquisition totalling USD 50 thousand (land bank project). As a result of this transaction the gross prepayments for land increased from USD 124,844 thousand as at 31 December 2011 to USD 124,894 thousand as at 30 June 2012.

The investment in land bank projects has been historically reflected at cost less any impairment. No impairment of prepayments for land was recognised before 2011. Land plots for the land bank project are currently registered for agricultural use, and the rezoning process to change the purpose of the land plots to construction use was in progress as at 30 June 2012. Recent changes in legislation have resulted in further delay in completion of rezoning by approximately six months for one of the two locations of the land bank, which has entered the final stage of the rezoning process, and an even greater delay for the second location, which remains less advanced in the process. The Board decided to use a conservative approach, taking into account the many current uncertainties surrounding the rezoning of land in Ukraine, and determined with the help of independent appraiser (CB Richard Ellis) the market value of the land bank. The market value of the land bank was determined using agricultural comparatives and discounting for the time period required to sell the land plots. Based on the market value of land as assessed by the appraiser, the Group recognised an impairment loss on prepayments for land as at 30 June 2012 of USD 1,750 thousand (as at 31 December 2011: USD 57,744 thousand).

In December 2008 the Group entered into the following pledge agreements to secure prepayments for land. During 2009 - 2011 several amendments to the agreements were signed to increase the assigned value of the collateral in conformity with prepayments made. The main conditions of the agreements are as follows:

Date of signing	Pledger	Collateral	Gross amount of prepayment for land	Assigned value of the collateral
(in thousands of USD)				
24 December 2008	K Zatyshna Domivka LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 190.4 hectares located in the Kyiv region.	**15,935**	**15,935**
25 December 2008	Land Investments LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 160.6 hectares located in the Kyiv region.	**52,640**	**52,640**
25 December 2008	Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 155.6 hectares located in the Kyiv region.	**56,319**	**56,269**

	124,894	**124,844**

This table summarises the amount of prepayment intended to be secured by collateral rather than the fair value of the collateral itself. The fair value (or market value) of the land plots owned by the above entities is described in detail in paragraph 2 of this note 5.

(in thousands of USD)	**Amount of prepayment for land**
At 1 January 2011	**124,094**
Prepayment made	750
Fair value loss on revaluation	(57,744)
At 31 December 2011	**67,100**
Prepayment made	50
Fair value loss on revaluation	(1,750)
At 30 June 2012	**65,400**

6 Investments in associates

The Group has the following investments in associates :

Name	Country	Ownership/Voting	
		30 June 2012	31 December 2011
Henryland Group Ltd	British Virgin Islands	**38.00%**	38.00%
Hindale Executive Investments Limited	Cyprus	**18.77%**	18.77%
Arricano Trading Limited	Cyprus	**16.67%**	16.67%

The following is summarised financial information for the associates, not adjusted for the percentage ownership held by the Group:

(in thousands of USD)	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Profit/(loss)**
31 December 2011					
Henryland Group Ltd	38.00%	40,392	6,549	3,877	3,184
Hindale Executive Investments Limited	18.77%	10,342	1,688	-	(8,404)
Arricano Trading Limited	16.67%	210,786	96,097	16,356	8,192
		261,520	**104,334**	**20,233**	**2,972**

	Ownership	**Total assets**	**Total liabilities**	**Revenues**	**Profit/(loss)**
30 June 2012					
Henryland Group Ltd	38.00%	39,402	6,484	1,977	1,336
Hindale Executive Investments Limited	18.77%	10,257	1,643	-	(39)
Arricano Trading Limited	16.67%	251,772	110,752	6,446	26,331
		301,431	**118,879**	**8,423**	**27,628**

During six months to 30 June 2012 the Group received dividends of USD 873 thousand from its investments in Henryland Group Ltd (in the year 2011: USD 569 thousand).

In October 2009, due to the fact that certain conditions set out in the shareholders' agreement between the Group and the Avenue project partner were not met (in particular, certain permits were not procured and the land plot was not cleared of garages before October 2009), the Group decreased its stake in Hindale Ltd from 50% + 1 share to 18.77 % and as a result in Promtek LLC, which is 100% owned by Hindale Ltd

The share capital of Hindale Ltd was decreased by 1,539 ordinary shares held by the Group. In return, the Group received USD 5,000 thousand and an option to repurchase the 1,539 ordinary shares of Hindale Ltd for USD 5,000 thousand in accordance with the shareholders' agreement. The lease agreement for the land plot on which Hindale Ltd is planning to construct the real estate, has expired on 2 July 2012. An application has been made to the relevant authorities to extend the lease for the time needed to complete the project. However Hindale Ltd may not be able to prolong the lease term. Taking all that into account the Board decided to apply a 100% provision for the fair value of the Group's effective ownership in the Avenue Shopping Mall project which amounted to USD 1,617 thousand (31 December 2011: USD 1,624 thousand).

Investment in Arricano Group Ltd

On 10 September 2010 the Parent company entered into a Shareholders Agreement (SHA) with Expert Capital SA (currently - Retail Real Estate SA, RRE) and Arricano Trading Limited (Arricano) and acquired a 35% interest in Arricano, through the issue of 1,077 new shares by Arricano for a consideration of USD 30,000 thousand payable by the Parent Company in cash. Arricano is a leading developer of upscale shopping centres in Ukraine, and the investment of USD 30,000 thousand was earmarked to fund further development of shopping centres and to repay certain existing Arricano debt.

A substantial part of Arricano's net assets was represented by a pool of loans receivable in the amount of USD 134,594 thousand, including accrued interest of USD 30,627 thousand, that were extended by a financial vehicle controlled by Expert Capital SA to the Sky Mall project to finance the real estate assets of the Sky Mall project. As a part of the SHA, these loans receivable together with accrued interest are to be assigned to Assofit (Sky Mall project) for a nominal price of EUR 1 each, and as of the date of these financial statements, are in the process of being assigned to Assofit. These loans receivable were reduced for repayment of loan provided by Swedbank to the Sky Mall project in the amount of USD 20,715 thousand.

On 9 June 2011 the tribunal acting under the UNCITRAL rendered a Final Award according to which it was declared that Stockman had validly terminated the Assofit shareholders agreement on 8 November 2010. In addition, on 13 December 2011 the sole arbitrator acting under the LCIA rendered an award according to which it was declared that Stockman had validly terminated the call option agreement.

Also, in the final award rendered by the tribunal it was ordered that Arricano should transfer all loans extended to the Sky Mall project by a financial vehicle controlled by Expert Capital SA (principal shareholder of Arricano) to a Cypriot company (SPV). This SPV is to be under the joint control of Arricano and Stockman and owned 49.97 % by Arricano and 50.03% by Stockman, mirroring their shareholding in Sky Mall project.

As at 30 June 2012 the net assets of Arricano include the following:

(in thousands of USD)	**Total recognised carrying values**
Net assets attributable to Arricano	141,020
49.97% of loans receivable planned to be assigned to SPV	61,512
Net assets	**202,532**

As at 31 December 2011 the net assets of Arricano include the following:

(in thousands of USD)	**Total recognised carrying values**
Net assets attributable to Arricano	114,689
49.97% of loans receivable planned to be assigned to SPV	61,687
Net assets	**176,376**

Significant influence

The Group has the right to appoint one (out of four) directors to the Board of Directors of Arricano. Pursuant to the SHA, the management structure of Arricano provides that significant operating, investment and strategic decisions require consent by all parties.

At the date that these financial statements were authorised for issuance, 28 September 2012, there is ongoing litigation between Arricano and Stockman that may ultimately delay the contribution of the loans extended to the Sky Mall project that are planned to be assigned to the SPV.

The Group has the right to appoint two (out of four) representatives to the Board of Directors of Hindale Ltd Pursuant to the shareholders agreement, the management structure of Hindale Ltd provided that significant operating decisions require consent by all parties.

7 Loans receivable

Included in long-term loans receivable is a loan provided by the Group to Commercial Construction LLC at a 2% fixed interest rate. The purpose of the loan was to finance construction of showcase houses in the cottage communities Riviera Villas and Green Hills. As at 30 June 2012 long-term loans receivable due from Commercial Construction LLC totals USD 878 thousand, including accrued interest of USD 90 thousand (31 December 2011: USD 920 thousand, including accrued interest of USD 81 thousand).

8 Inventories

Inventories are as follows:

(in thousands of USD)	**30 June 2012**	31 December 2011
Trading property	**10,100**	10,200
Trading properties under construction	**34,796**	-
Other inventory	**63**	47
Construction materials	**1**	1
Total	**44,960**	10,248

As at 30 June 2012 and 31 December 2011 trading property is represented by the gated community Sadok Vyshnevyi (38 newly constructed houses and relevant land plots).

As at 30 June 2012 trading property of USD 10,100 thousand (2011: USD 10,200 thousand) represents the net realisable value as defined by the independent appraiser. The impairment loss for the 6 months ended 30 June 2012 of USD 100 thousand (31 December 2011: USD 2,000 thousand) was recognised in profit or loss.

Since starting the construction at the beginning of 2012 the project Obolon was transferred from Investment properties to Trading Properties under construction (see note 4). As at 30 June 2012 the value of transferred property in the amount of USD 34,796 thousand represents its fair value at the date of reclassification plus cost of construction incurred during six month ended 30 June 2012.

9 Trade and other receivables

In January 2010 a portion of the loan provided to Commercial Construction LLC totalling USD 841 thousand (including accrued interest of USD 33 thousand) attributable to the project Riviera Villas was assigned to Intendancy Ltd, the Group's partner in project Riviera Villas, provided that Intendancy Ltd paid to the Group USD 841 thousand. The aforesaid consideration was to be paid to the Group within 180 banking days from the date of registration of the assigned loan contract with the National Bank of Ukraine. During the year ended 31 December 2011 USD 569 thousand was received by the Group as part of the aforesaid consideration. As at 30 June 2012 the remainder of the debt of Intendancy Ltd in the amount of USD 272 thousand is included in other receivables (31 December 2011: USD 272 thousand).

Other receivables include a receivable due from Intendancy Ltd in the amount of USD 1,407 thousand (2011:USD 866 thousand) that relates to the sale of a land plot in project Riviera Villas according to the Project Development Agreement concluded by the Group with Intendancy Ltd (see note 4).

Trade and other receivables are as follows:

(in thousands of USD)	**30 June 2012**	31 December 2011
Other receivables	**2,033**	1,291
Prepayments made	**378**	458
Total	**2,411**	1,749

10 Cash and cash equivalents

Cash and cash equivalents are as follows:

(in thousands of USD)	**30 June 2012**	31 December 2011
Bank balances	**1,693**	2,903
Call deposits	**23,563**	25,801
Total	**25,256**	28,704

The following table represents an analysis of cash and cash equivalents based on Fitch ratings or their equivalent:

(in thousands of USD)	**30 June 2012**	31 December 2011
Bank balances		
AA	**1**	15
A+	**20**	2
A	**843**	2,273
BB+	**-**	356

(in thousands of USD)	**30 June 2012**	31 December 2011
B	**525**	257
BB-	**268**	-
CCC	**36**	-
	1,693	2,903
Call deposits		
AA	**8,500**	20,800
A	**15,000**	5,000
B	**63**	1
	23,563	25,801
Total	**25,256**	28,704

11 Equity

Movements in share capital and share premium are as follows:

	Ordinary shares *Number of shares*	**Amount** *Thousands of USD*
Outstanding as at 31 December 2007, fully paid	140,630,300	2,813
Issued during 2008	1,698,416	34
Own shares acquired and cancelled during 2008	(8,943,000)	(179)
Outstanding as at 31 December 2008, fully paid	133,385,716	2,668
Own shares acquired and cancelled	(15,669,201)	(314)
Outstanding as at 31 December 2009, fully paid	117,716,515	2,354
Outstanding as at 31 December 2010, fully paid	117,716,515	2,354
Own shares acquired and cancelled during 2011	**(8,355,000)**	**(167)**
Outstanding as at 31 December 2011, fully paid	**109,361,515**	**2,187**
Outstanding as at 30 July 2012, fully paid	**109,361,515**	**2,187**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

As part of an initial public offering on 1 June 2007 104,000,000 ordinary shares were sold to certain institutional investors at a price of USD 2.00 per ordinary share, raising gross proceeds of USD 208,000 thousand. In addition 36,630,100 ordinary shares were sold on 29 November 2007 at a price of USD 2.73 per ordinary share, raising gross proceeds of USD 100,000 thousand. The difference between net proceeds per share and par value is recognised as share premium.

During 2008 the Group issued 1,698,416 new ordinary shares at a price of USD 2.60 per ordinary share to settle 70 % of the manager's performance fee for 2007 in the amount of USD 4,432 thousand.

All issued shares are authorised and fully paid. Total authorised shares are 300,000,000.

Following the extraordinary general meetings of members of the Parent Company on 31 July 2008 and 1 December 2008, 11,948,000 of its own shares were acquired by the Parent Company and were cancelled. The purchase price of acquired shares ranged from USD 0.50 to USD 1.47 per share. The difference between the total price paid and par value is recognised as a share premium decrease.

Following the extraordinary general meeting of members of the Parent Company on 29 May 2009, 12,664,201 of its own shares were acquired by the Parent Company and were cancelled. The purchase price of acquired shares ranged from USD 0.53 to USD 0.68 per share. The difference between the total price paid and par value is recognised as share premium decrease.

Following the extraordinary general meetings of members of the Parent Company on 9 November 2011 and 12 December 2011, 8,355,000 of its own shares were acquired by the Parent Company and were cancelled. The purchase price of acquired shares ranged from USD 0.48 to USD 0.63 per share. The difference between the total price paid and par value is recognised as share premium decrease.

The par value per ordinary share is USD 0.02.

12 Finance lease liabilities

Finance lease liabilities are as follows:

	30 June 2012			31 December 2011		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
(in thousands of USD)	**2012**	**2012**	**2012**	2011	2011	2011
Less than one year	**265**	**230**	**35**	499	468	31
Between one and five years	**998**	**829**	**169**	1,968	1,786	182
More than five years	**6,592**	**5,350**	**1,242**	17,013	14,097	2,916
	7,855	**6,409**	**1,446**	19,480	16,351	3,129

The imputed finance costs on the liabilities are based on the Group's incremental borrowing rate in UAH (2012:15.9% p.a., 2011: 15.0%). As at the dates of entering the lease agreements the Group had no external borrowings, therefore, the incremental borrowing rate was estimated based on available market information.

Future minimum lease payments as at 30 June 2012 are based on the Directors' assessment and calculated based on the actual lease payments effective at the reporting date. The future lease payments are subject to review and approval by the municipal authorities and may differ from the Directors' assessment. In accordance with decision of Kremenchuk City Council from 29 May 2012 there have been following changes to conditions of land lease agreement:

- reduction of rental rate from 10% to 5% used in valuation model
- increase of correction coefficient applied to normative valuation of leased land plot

which resulted in assessment of minimum lease payments.

The contractual maturity of land lease agreements is 2023 - 2024. The Group intends to prolong these lease agreements for the period of construction and usage of the investment property being constructed on the leased land. Consequently, the minimum lease payments are calculated for a period of 15-50 years.

13 Income tax expense

(a) Income tax expense

Income taxes for the six months ended are as follows:

(in thousands of USD)	**For the six months ended 30 June 2012**	For the six months ended 30 June 2011
Current tax expense	**-**	-
Deferred income tax benefit	**250**	175
Total income tax benefit	**250**	175

Based on legislation enacted in December 2010, on 1 January 2011 a new tax code became effective in Ukraine. Amongst other changes the new tax code changed the corporate profit tax rates. For 2010 and the 3 month-period ended 31 March 2011 a corporate income tax rate of 25% is applied. A reduced rate of 23% applies from 1 April 2011 and will gradually decrease further to 21% and 19% in 2012 and 2013, respectively, and from 2014 onwards the tax rate will be fixed at 16%.

The applicable tax rate is 10% for Cyprus companies and 0% for the Isle of Man.

(b) Reconciliation of effective tax rate

The difference between the total expected income tax benefit for the six month 2012 computed by applying the Ukrainian statutory income tax rate to loss before tax and the reported tax benefit is as follows:

(in thousands of USD)	**For the six months ended 30 June 2012**	**%**	For the six months ended 30 June 2011	%
Loss before income tax	**(2,172)**	**100**	(3,109)	100
Computed expected income tax benefit at statutory rate	**(459)**	**21**	(714)	23
Effect of income taxed at lower tax rates	**(924)**	**43**	(1,050)	34
Reduction in tax rate	**-**	**-**	178	(6)
Non-taxable income (income earned by holding companies)	**-**	**-**	51	(2)
Change in unrecognised temporary differences	**816**	**(38)**	-	-
Non-deductible expenses	**317**	**(15)**	1,360	(44)
Effective income tax benefit	**(250)**	**11**	(175)	5

(c) Recognised deferred tax liabilities

The movement in deferred tax liabilities for the six months ended 30 June 2012 is as follows:

(in thousands of USD)	1 January 2012 liability	Recognised in profit or loss	Effect of transfer from investment property to trading property	30 June 2012 liability
Investment properties	**(11,308)**	**532**	**5,507**	**(5,269)**
Trading Properties under construction		**3**	**(5,507)**	**(5,504)**
Finance lease liabilities	**531**	**(285)**	**-**	**246**
Deferred tax liabilities	**(10,777)**	**250**	**-**	**(10,527)**

The movement in deferred tax liabilities for the year ended 31 December 2011 is as follows:

(in thousands of USD)	1 January 2011 liability	Recognised in income	31 December 2011 liability
Investment properties	(12,438)	1,130	(11,308)
Finance lease liabilities	512	19	531
Deferred tax liabilities	(11,926)	1,149	(10,777)

(d) Unrecognised deferred tax assets

Deferred tax assets as at 30 June 2012 and 31 December 2011 have not been recognised in respect of the following items:

(in thousands of USD)	30 June 2012	31 December 2011
Prepayment for land	**5,949**	5,774
Trading property	**247**	247
Tax loss carry-forwards	**803**	4,982
	6,999	11,003

In accordance with existing Ukrainian legislation tax losses can be carried forward and utilised indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

14 Trade and other payables

Trade and other payables are as follows:

(in thousands of USD)	30 June 2012	31 December 2011
Management fees	**1,635**	1,089
Other payables and accrued expenses	**1,964**	2,151
Total current liabilities	**3,599**	3,240

15 Management and Performance fees

Management fee for the six months are as follows:

(in thousands of USD)	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Management fee	**1,635**	2,222
Total	**1,635**	2,222

Management Agreement

The Parent Company entered into a management agreement dated 16 May 2007 with Dragon Capital Partners Ltd (the Manager) pursuant to which the latter has agreed to provide advisory, management and monitoring services to the Group. The Company may terminate the manager's appointment on at least 6 months written notice expiring on or after the fifth anniversary of admission to AIM, or without written notice subject to certain criteria.

In consideration for its services thereunder, the Manager is entitled to be paid an annual management fee of 1.5% of the gross asset value (GAV) of the Group at the end of the relevant accounting period or part thereof plus value added tax or similar taxes which may be applicable.

The total management fee for the six months ended 30 June 2012 is USD 1,635 thousand (six months ended 30 June 2011: USD 2,222 thousand).

Performance fee is payable based on the results for the accounting period ending 31 December so it is not applicable for the period ending 30 June 2012.

16 Share-based payments

On 16 May 2007 the Parent Company granted share options, conditional on the public issuance of shares, to subscribe for up to 100,000 ordinary shares to Mr. Van der Heijden, a director of the Parent Company.

On 16 May 2007 the Parent Company entered into the Dragon Capital Partners Warrant Instrument and the Zimmerman Adams International Ltd (ZAI) Warrant Instrument. These warrants entitle

Dragon Capital Partners and ZAI to subscribe for such number of ordinary shares as is equal to 5% and 1%, respectively, of publicly issued shares from 1 June 2007 and terminating five years thereafter. The warrants are exercisable at the market price of the shares at the date of grant.

The terms and conditions of the options and warrants granted are as follows:

	Options granted to Mr. Van der Heijden	Warrants granted to Dragon Capital Partners		Warrants granted to ZAI	Total
Date granted	**16 May 2007**	**16 May 2007**	**29 November 2007**	**16 May 2007**	
Number of instruments	**100,000**	**5,200,000**	**1,831,505**	**1,040,000**	**8,171,505**
Vesting period	**1-5 years**	**Immediately**	**Immediately**	**Immediately**	
Expiry dates	**(1)**	**16 May 2012**	**16 May 2012**	**16 May 2012**	
Exercise price	**USD 2.00**	**USD 2.00**	**GBP 1.30**	**USD 2.00**	
Share-based compensation (USD thousand) during six months 2011	**10**	**-**	**-**	**-**	**10**
Share-based compensation (USD thousand) during six months 2012	**2**	**-**	**-**	**-**	**2**

(1) - These options are exercisable by Mr. Van der Heijden only while he remains a director and will lapse on the termination of his appointment.

Options granted to Mr. Van der Heijden vest as follows:

- 10,000 options on 16 May 2008
- 15,000 options on 16 May 2009
- 20,000 options on 16 May 2010
- 25,000 options on 16 May 2011
- 30,000 options on 16 May 2012

There were no forfeited or exercised options during the six months 2012 ended 30 June 2012 and year ended 31 December 2011.
The fair value of services received in return for share options and warrants granted is based on the fair value of share options and warrants granted, measured using the Black-Scholes formula, using the following assumptions:

(in USD, except for number of shares and percent)	Key management personnel	Dragon Capital Partners Ltd		Zimmerman Adams International Ltd
		Initial share issue	Secondary share issue	
Fair value at grant date	**0.82**	**0.82**	**0.82**	**0.82**
Share price	**2.00**	**2.00**	**2.73**	**2.00**
Exercise price	**2.00**	**2.00**	**2.73**	**2.00**
Expected volatility, percent	**33.80**	**33.80**	**33.80**	**33.80**
Option life, years	**1 - 5**	**5**	**5**	**5**
Expected dividends, percent	**0.00**	**0.00**	**0.00**	**0.00**
Risk free interest rate, percent	**6.39**	**6.39**	**6.39**	**6.39**

Expected volatility is estimated by considering the data of peer companies listed on AIM.

Share-based payments recognised for the six months are as follows:

(in thousands of USD)	**For the six months ended 30 June 2012**	For the six months ended 30 June 2011
Share options granted in 2007:		
Share options (compensation expense)	**2**	6
Total share-based payments	**2**	6

The number and weighted average fair value and exercise price of share options and warrants is as follows:

(in USD, except for number of shares)	**Weighted average fair value**	**Weighted average exercise price**	**Number of options and warrants**
Outstanding at 31 December 2007	**0.88**	**2.16**	**8,171,505**
Exercisable at 31 December 2007	**0.88**	**2.17**	**8,071,505**
Exercisable at 31 December 2008	**0.83**	**2.16**	**8,081,505**
Exercisable at 31 December 2009	**0.88**	**2.01**	**8,096,505**
Exercisable at 31 December 2010	**0.71**	**2.00**	**8,116,505**
Exercisable at 31 December 2011	**0.79**	**2.00**	**8,141,505**
Exercisable at 30 June 2012	**-**	**-**	**-**

17 Administrative expenses

Administrative expenses for the six months ended 30 June are as follows:

(in thousands of USD)	**For the six months ended 30 June 2012**	For the six months ended 30 June 2011
Professional services	**1,344**	261
Advertising	**134**	220
Wages and salaries	**82**	106
Audit fees	**26**	2
Directors' fees	**110**	63
Bank charges	**19**	23
Insurance	**12**	8
Share-based compensation	**2**	4
Travel expenses	**4**	-
Other	**27**	183
Total administrative expenses	**1,760**	870

18 Net finance costs

Net finance (cost) income for the six months ended 30 June 2012 and 2011 are as follows:

(in thousands of USD)	**For the six months ended 30 June 2012**	For the six months ended 30 June 2011
Interest income	**19**	378
Interest expenses	**(120)**	-
Financial instruments (option) loss	**-**	(661)
Unrealised currency exchange gain	**25**	4
Net financial costs	**(76)**	(279)

19 Contingencies

(a) Litigation

As at 30 June 2012 the land plot leased by Hindale Ltd relating to project Avenue Shopping Mall on Komarova Avenue, Kyiv, was not cleared of garages and there is a law suit relating to this project in which Hindale Ltd is involved. This law suit and difficulties in obtaining relevant permits may delay the construction works on the land plot.

As at 30 June 2012 the lease agreement for the land plot on which Hindale Ltd is planning to construct the real estate has expired and was not renewed though an application was put to extend it. Thus Hindale Ltd may not be able to prolong the lease term. Despite the fact that the Group has won all law suits to date and that the Directors are confident that the Group will prevail in on-going law suits, the Directors do not believe that they will obtain all relevant permits on time and, consequently, the construction works will not start as planned and the lease term will not be extended if needed without delays. Taking all that into account the Board has decided to apply a 100% provision for the fair value of the Group's effective ownership in the Avenue Shopping Mall project which amounted to USD 1,617 thousand (31 December 2011: USD 1,624 thousand).

As was mentioned in note 7, on 9 June 2011 the tribunal acting under the UNCITRAL rendered a Final Award in relation to Arricano according to which it was declared that Stockman had validly terminated the shareholders agreement with Arricano subsidiary Assofit (Sky Mall project). In addition, on 13 December 2011 the sole arbitrator acting under the LCIA rendered an award according to which it was declared that Stockman had validly terminated the Sky Mall Call Option.

On 10 January 2012 Arricano lodged an appeal to the High Court of Justice of England and Wales to challenge this award. Appeal procedure is still in process as at the date of these statements.

(b) Taxation contingencies

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

The Directors believe that the Group has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these consolidated financial statements.

(c) Insurance

The Group does not have full coverage for its property, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(d) Capital expenditure and other commitments

As at 30 June 2012 outstanding commitments to finance construction of investment properties and other commitments amount to USD 31,584 thousand (31 December 2011: USD 7,913 thousand).

20 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the net loss for the six months ended 30 June 2012 attributable to the ordinary shareholders of the Parent Company of USD 1,546 thousand (six month ended 30June 2011: net loss of USD 2,661 thousand) and the weighted average number of ordinary shares outstanding calculated as follows:

(number of shares weighted during the period outstanding)	**30 June 2012**	30 June 2011
Shares issued on incorporation on 23 February 2007	**2**	2
Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May 2007	**198**	198
Shares issued on 1 June 2007	**104,000,000**	104,000,000
Shares issued on 29 November 2007	**36,630,100**	36,630,100
Shares issued on 24 April 2008	**1,698,416**	1,698,416
Own shares buyback in 2008	**(8,943,000)**	(8,943,000)
Own shares buyback in 2009	**(15,669,201)**	(15,669,201)

(number of shares weighted during the period outstanding)	**30 June 2012**	30 June 2011
Own shares buyback in 2011	**(8,355,000)**	-
Weighted average number of shares for the period	**109,361,515**	117,716,515

Diluted earnings per share

Since as at 30 June 2012 there were no exercisable option and warrants therefore the Group has no diluted earnings per share for six months ended 30 June 2012. The calculation of diluted earnings per share for six months ended 30 June 2011 is based on the net loss for six months ended 30 June 2011 attributable to the ordinary shareholders of the Parent Company of USD 2,661 thousand and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

(number of shares)	30 June 2011
Weighted average number of shares for six months	117,716,515
Weighted average number of shares for the period (fully diluted)	117,716,515

Because during the first half of year 2011 the average market price of ordinary shares was below the exercise price of the share options and warrants these options and warrants have no dilutive effect.

21 Financial risk management

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

(a) Risk management policy

The Board has assessed major risks and grouped them in a register of significant risks. This register is reviewed by the Board at least twice per year or more often if there are circumstances requiring such a review.

(b) Credit risk

When the Group enters into an arrangement exposing it to credit risk, it does so only on the basis of due diligence research and the reputation of the counterparty. As at 30 June 2012 the largest exposures relate to prepayments made under three land acquisition contracts totalling USD 65,400 thousand (31 December 2011: USD 67,100 thousand). This latter risk is mitigated by pledge agreements for corporate rights of the pledger in the entities that own the land to be acquired.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 30 June 2012, USD 1,612 thousand or 65.5% of total trade and other receivables are due from a single customer (31 December 2011: USD 1,049 thousand or 60.0%).

The exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. As at the balance sheet date the Group had no such collective impairment provision.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as follows:

(in thousands of USD)	**30 June 2012**	31 December 2011
Loans receivable	**878**	920
Trade and other receivables	**2,411**	1,291
Cash and cash equivalents	**25,256**	28,704
	28,545	30,915

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including interest payments as of 30 June 2012:

		Contractual cash flows			
(in thousands of USD)	**Carrying amount**	**Total**	Within one year	2-5 years	More than 5 years
Finance lease liabilities	**1,446**	**7,855**	**265**	**998**	**6,592**
Trade and other payables	**3,599**	**3,599**	**3,599**	**-**	**-**
	5,045	**11,454**	**3,864**	**998**	**6,592**

The following are the contractual maturities of financial liabilities, including interest payments as of 31 December 2011:

(in thousands of USD)	**Carrying amount**	**Contractual cash flows**			
		Total	Within one year	2-5 years	More than 5 years
Finance lease liabilities	3,129	19,480	499	1,968	17,013
Trade and other payables	3,240	3,240	3,240	-	-
	6,369	**22,720**	**3,739**	**1,968**	**17,013**

(d) Interest rate risk

Changes in interest rates impact primarily cash and cash equivalents by changing either their fair value (fixed rate deposits) or their future cash flows (variable rate deposits). The Directors do not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of placing new deposits the Directors use their judgment to decide whether they believe that a fixed or variable rate would be more favourable over the expected period until maturity.

As at 30 June 2012 and 31 December 2011 all financial assets and liabilities have fixed interest rates. The Group does not account for fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates as at 30 June 2012 and 31 December 2011 would not affect profit or loss.

(e) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily UAH and EUR. The exposure to foreign currency risk is as follows based on notional amounts:

	30 June 2012			31 December 2011		
(in thousands of USD)	**EUR**	**GBP**	**UAH**	EUR	GBP	UAH
Current assets						
Cash and cash equivalent	**6**	**13**	**334**	9	17	276
Trade and other receivables	**10**	**25**	**607**	10	-	1,470
Non-current liabilities						
Finance lease liability	**-**	**-**	**(1,411)**	-	-	(3,098)
Current liabilities						
Trade and other payables	**(18)**	**(9)**	**(316)**	(34)	(9)	(709)
Current portion of finance lease liability	**-**	**-**	**(35)**	-	-	(31)
Net (short) long position	**(2)**	**29**	**(821)**	(15)	8	(2,092)

The foreign exchange rates of the USD are as follows:

Currency	30 June 2012	31 December 2011
EUR	**1.2475**	1.2889
GBP	**1.5602**	1.5417
UAH	**0.1251**	0.1252

As at 30 June 2012 a 10 percent weakening of the US dollar against the UAH would have increased post-tax loss and decreased equity by USD 65 thousand (31 December 2011: USD 161 thousand).

As at 30 June 2012 a 10 percent weakening of the US dollar against the GBP would have decreased post-tax loss and increased equity by USD 3 thousand (31 December 2011: decreased by USD 1 thousand).

As at 30 June 2012 a 10 percent weakening of the US dollar against the EUR would have insignificant influence to equity (31 December 2011: USD 1 thousand).

This analysis assumes that all other variables, in particular interest rates, remain constant.

(f) Fair values

The Directors believe that for all the financial assets and liabilities the carrying value is estimated to approximate the fair value as at 30 June 2012 and 31 December 2011 because of their short term nature. The fair value of finance lease liabilities is estimated to approximate its carrying value because the interest rates are consistent with current market rates for similar instruments at year end.

(g) Capital management

The Group has no formal policy for capital management but the Directors seek to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved by efficient cash management and constant monitoring of investment projects.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board. The Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

Neither the Parent Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22 Related party transactions

(a) Transactions with management and close family members

(i) Key management remuneration

Key management compensation included in the statement of comprehensive income for the six months ended 30 June is as follows:

(in thousands of USD)	**30 June 2012**	30 June 2011
Directors' fees	**110**	63
Share-based payment expense (options granted)	**2**	4
Total management remuneration	**112**	67

(ii) Key management personnel and director transactions

The Directors' own shares in the Parent Company are as follows:

	30 June 2012		31 December 2011	
	Number of shares	**Ownership, %**	Number of shares	Ownership, %
Aloysius Johannes Van der Heijden	**200,000**	**0.18**	200,000	0.18
Tomas Fiala	**14,220,561**	**13**	9,804,069	8.96
	14,420,561	**13.18**	10,004,069	9.14

Mr.Tomas Fiala, one of the Group's Directors, is the principal shareholder and managing director of Dragon Capital Group. In May 2012 Dragon Capital Group increased its shareholding from 9,804,069 shares to 14,128,561 ordinary shares with par value of 1 pence each through the acquisition of 4,324,492 shares at average price of 33.5 pence per share, representing an increase in its shareholding from 8.96% to 12.92% of the issued share capital of the Parent Company and in June 2012 increased it further to 14,220,561 shares or 13.00% through the acquisition of 92,000 shares at average price of 35 pence per share.

(b) Transactions with other related parties

Expenses incurred and outstanding balances of transactions for the six months ended 30 June are as follows:

(in thousands of USD)	**30 June 2012**		30 June 2011	
	Transactions	**Balance outstanding**	Transactions	Balance outstanding
Management fee for project management to be paid to Dragon Development	**37**	**2**	66	-
Expenses to be reimbursed to Manager	**-**	**-**	-	50
	37	**2**	66	50

All outstanding balances are to be settled in cash. None of the balances are secured.

23 Events subsequent to the reporting date

While the half year report was at an advanced stage DUPD became aware that it had no validly appointed directors as a result of past shareholder meetings having been found to be defective. Consequently its shares were been suspended from trading on AIM on 20 September 2012.

Standard Bank Trust Company (Isle of Man) Limited ("**Standard Bank**") was appointed by DUPD in August 2007 to provide registered office and company secretarial services in the Isle of Man including organising and convening shareholders' meetings in accordance with its Articles of Association. It was discovered that none of the shareholders' meetings which have taken place under Standard Bank's stewardship were quorate in accordance with the Articles.

The Articles require that for a meeting of shareholders to be quorate at least two members of DUPD be present in person or by a proxy or a duly authorised representative of a corporate member. The minutes of each shareholder meeting shows that a single director was present at each meeting as the holder of multiple proxies lodged by shareholders.

Legal advice was received that this would not satisfy the quorum requirements and, consequently, all resolutions passed at those meetings, including for the appointment of directors, were void.

Due to the urgent requirement for DUPD to appoint directors, following an application by DRGN Limited, which held approximately 13% of the shares of DUPD at the time of the application and is also the owner of the Group's investment manager, the Isle of Man High Court ordered an extraordinary general meeting of DUPD to be held on 28 September 2012.

At that meeting on 28 September 2012 Messrs Aloysius van der Heijden, Tomas Fiala, Fredrik Svinhufvud, Rory Macnamara and Nikolai Artemenko were duly appointed the directors of Dragon-Ukrainian Properties & Development plc.

DUPD plans to explore all of its options to ratify previous decisions of the shareholders and actions of the directors and seek compensation for any losses it has suffered as a result of this situation.