30 April 2012

Dragon-Ukrainian Properties & Development plc
("DUPD" or the "Company" and together with its subsidiaries, the "Group")

Results for the year ended 31 December 2011

Dragon-Ukrainian Properties & Development plc, a leading investor in the real estate sector in Ukraine, is pleased to announce its final results for the year ended 31 December 2011.

Highlights

Operational Highlights

- Focused on delivery and development of existing projects
- Targeting at securing cash flow generation from the development and operating projects
- Ukraine real estate market slowly recovering
- In discussions on securing construction finance for Obolon
- Solid progress on sales of residential properties in Green Hills and Riviera Villas
- First dividend received from investment in Henryland
- New openings continue to increase net operating income at Arricano; remaining development project in Arricano due for opening in Q3 2012
- Arricano secured a USD30m convertible loan from Goldman Sachs
- Discussions regarding the legal dispute between Arricano and its partner in Sky Mall continue, although the courts have ruled in favour of Arricano's partner
- Recent legislative changes have resulted in additional time required to complete the rezoning of the land bank; the Board has reassessed the basis for valuation of the land bank projects
- One of land bank projects passed the key Kyiv region council permit; Manager expects to complete rezoning of a part of the land within 12 months
- Invested in 10 projects across retail, residential and commercial real estate sectors; 4 of these are self-funding and cash generating
- Value of the Company's investment property was appraised by CB Richard Ellis and amounted to USD 77.0 million as at 31 December 2011 (30 June 2011: USD 76.61 million), excluding the investment in land banking.
- Effectively fully invested; focused on existing projects rather than potential new investments

Financial Highlights

- Total NAV of USD213.3m at 31 December 2011 (down 27% compared to 30 June 2011 of USD292.8m)

- NAV per share of USD1.95 at 31 December 2011 (down 22% compared to 30 June 2011 NAV per share of USD2.49)

- Cash balance of USD28.7m (30 June 2011: USD38.4m)

- Property write-downs and impairments of USD69.0m out of which write-down on land bank is USD57.7m (2010: USD0.5m gain)

- Net loss before tax and property write-downs/impairments USD9.6m (2010: loss USD2.3m)

- Tender offers in 2011 resulted in repurchase of 8.355m shares for a total consideration of £3.1m, all of which were accretive to NAV per share

Aloysius Wilhelmus Johannes van der Heijden, non-executive Chairman of the Company commented:

"We are pleased to have reported progress on our development projects, increased net operating income from Arricano and our first dividend from Henryland. Given delays experienced by the Manager in the rezoning of the land bank project, the Board took the decision to reassess the basis for valuation of the land bank project. The Manager expects to report positive progress on the rezoning which should result in an upward revaluation. We remain focused on the development of our portfolio and look forward to delivering further progress in 2012."

For further information, please contact:

Dragon - Ukrainian Properties & Development plc (www.dragon-upd.com)
Tomas Fiala +380 44 490 7120

Dragon Capital Partners Limited (Investment Manager)
Chris Kamtsios + 380 44 490 7120

Panmure Gordon (UK) Limited
Richard Gray / Andrew Potts +44 (0)20 7459 3600

About DUPD

Following the establishment of political stability and the start of economic recovery in Ukraine, 2011 turned out to be a year of further economic strengthening on the back of unprecedented government spending, which led to a 5.2% y-o-y real GDP growth and supported the recovery of the local real estate market. The country's brighter economic prospects were dimmed by resonance criminal prosecution of opposition leaders and political distancing between Ukraine and EU, which immediately affected international investors' sentiment for the country. This said, Ukraine still boasts weak competition, low market saturation and high investment yields, presenting unique long-term opportunities for proactive real estate investors.

Management of DUPD

DUPD utilises the property investment and development expertise of Dragon Capital Partners Limited ('DCP' or 'Manager') and, where a joint venture arrangement is appropriate, other experienced international and local partners. DCP has been appointed to provide advisory, investment management and monitoring services to DUPD in respect of property development and acquisition opportunities in Ukraine. DCP is a 100% subsidiary of Dragon Asset Management, the asset management arm of Dragon Capital, Ukraine's leading investment bank, offering a full range of services to institutional, corporate and private clients. Established in 2000, Dragon Capital is an independent partnership controlled by management, with a minority stake held by Goldman Sachs. The company has completed more than 90 deals, including IPOs, private placements, M&A transactions and debt financings, since 2005, raising over USD 3.0 billion. Dragon's asset management arm has approximately USD 0.6 billion under management. All investment opportunities identified by the Manager are considered by the Board of Directors, comprising of independent directors with extensive experience in property investment, development and management, as well as general investment, company law and administration.

Our Investment Strategy

Being fully invested, DUPD is now focused on timely delivery and further development of the existing projects in its portfolio, which span across residential, retail and land sectors. Our primary target is to monetise the incurred investments by bringing development and land bank projects to the cash-generating stage and building-up sales in our cottage community projects. We assume a proactive approach to every investment project in our portfolio, trying to efficiently deal with typical issues of the local market – complicated procedures in real estate development and land market – as well as unavailability of mortgage lending and project financing. The Manager is utilizing its own proprietary network of local and international contacts and is capitalizing on access to leading institutional investors, being shareholders of the Company.

Chairman's Statement

I am pleased to announce the Company's annual results for the year ended 31 December 2011. The Company operated over the last year in a particularly challenging environment, where Ukrainian real estate market remained weak despite some initial signs of recovery with financing background for real estate projects being quite uncertain. During the year, our management team was able to achieve good progress on projects under development, with two residential community projects in our portfolio – Green Hills and Riviera Villas – becoming award-winning for their quality and concept. Despite the difficult market environment, we have been able to achieve strong sales in both communities, which resulted in DUPD's total sales proceeds growing from USD 2.2 million in 2010 to USD 4.9 million as of the end of 2011 cumulatively. Significant progress was also made on completion of soft-development stage and receipt of project approvals and construction permit on the Obolon Residential Towers project. Alongside our belief that the local retail property market possesses significant growth potential, we have seen substantial improvements in operational income of Arricano and Henryland, while also receiving our first dividends from the latter. Both retail and residential projects, except Obolon, are expected to be fully self-funded in 2012 with positive cash flow available for re-investment, or distribution.

Results

The Company's Net Asset Value ('NAV') decreased to USD 213.3 million, which is 28% below the 2010 result. The largest contributor to such decline is decrease in value of investments into land-banking projects, as management took a decision to use a more conservative approach to valuation by completely discounting all the progress on re-zoning process achieved to date. As a Board Chairman, I believe that such approach is prudent in the current environment despite of the fact that some of the key approvals were obtained during the last year and allows for best representation of the fair value of such investment, while posting a revaluation gain potential once the actual rezoning process on such assets is completed. As a result, the Company's net loss for the year amounted to USD 77.5 million.

Buy-Back

While the trading environment remained extremely difficult and the Company's shares were trading at a substantial discount to NAV, we have pursued another round of buy-back program, which allowed us to acquire 8,355,000 of Company's shares for a total consideration of GBP 3,134,847 at a substantial discount to NAV per share, which in our opinion was one of the best options to enhance NAV per share and the overall return to shareholders of the Company.

Board Changes

On 15 July 2011 and 20 January 2012 Christopher Watson and Boris Erenburg resigned from the Board of the Company. The Board would like to thank Christopher and Boris for their contribution and on-going support of the Company during the term of their involvement. Mr. Rory Macnamara and Mr. Nikolay Artemenko joined the Board on 6 December 2011 and 14 February 2012 respectively. Both gentlemen possess substantial expertise in the real estate sector and emerging markets in particular, which adds substantial value to the management of the Company.

Outlook

We expect 2012 to be a particularly important year in the history of DUPD. As reported previously, the Company's focus is on driving rental income, sales of residential properties and efficiency across the business, while also focusing on completing the rezoning procedures on its land bank portfolio. We plan to complete demolishment works and secure debt finance, which would allow commencing construction of the first tower of our 67,000 m2 Obolon Residential Towers project. Within the Arricano portfolio project, lease space is expected to increase by 66,100 m2, as Rayon shopping centre is delivered in 3Q2012, while an additional 73,400 m2 is planned to be under construction, and more importantly, a settlement over Sky Mall dispute to be reached with the local partner. With a strong cash position and conservative business model for development of our projects, the Company is well positioned to continue building up value for its shareholders and increase cash-flow generating potential of its portfolio in 2012. In early 2013 we expect to complete the rezoning process, which given our recent decision on revaluation of land bank projects should become a substantial milestone in building up asset value.

Investment Manager's Report

Operations Overview

In 2011, we focused on the management of our diverse portfolio of ten projects – rather than considering new investments – which had to be pro-active and innovative amidst illiquidity of the Ukrainian financial system, in order to achieve good progress in most of them.

The largest retail property investment of DUPD, Arricano Trading ltd, where the Company has a 16.7% shareholding, had two key achievements in 2011: first, the opening of a 10,900 m2 extension of City Mall shopping centre in Zaporizhya, anchored by Auchan, which brought the scheme's NOI from USD 0.5 million to USD 4.6 million (2012 estimate), and then, attracting a USD 30 million convertible loan facility from Goldman Sachs, in line with the strategy of Arricano to develop into the leading retail developer in Ukraine and hold an IPO in 2013. With vacancy of only 2% and average rent in the shopping gallery of USD 41/m2, the successful opening of City Mall served as a proof of market recovery. Construction of the last shopping centre in Arricano's portfolio of five projects – Rayon (Kyiv) – continued according to schedule, despite a delay in loan disbursement by a multilateral lender, and is set to open in 3Q2012 with planned NOI of USD 10.8 million. Arricano remains in legal disputes over execution of its call option on its key project, Sky Mall (Kyiv), but expects to reach an amicable agreement with its local partner during the first half of 2012.

Another retail investment of DUPD – Henryland, the project of six DIY-stores, three of which are operational – postponed the development of its fourth property in Bila Tserkva until 2013, allowing the company for the first time to distribute USD 1.5 million in dividends, of which DUPD's share was USD 0.6 million.

Sales in Green Hills in 2011 were on the level of 2010, bringing the total number of pre-sales to 26 and sales proceeds to USD 3.3 million. At the same time, we managed to increase the average sales price by 10% reflecting our strategy to increase the margin as the project progresses. Several initiatives in Green Hills were completed, such as construction of centralised water supply system, centralised sewerage and private kindergarten. The American Medical Centre opened its Green Hills premises in March 2012. Similarly in Riviera Villas, our elite cottage community project, we completed installation of all utilities for the first phase, built 13 new homes, and set up the maintenance company's office, which allowed to boost sales to six homes and USD 2.7 million in sales revenue.

Likewise, we made substantial progress with the Obolon project last year, receiving the construction permit, resolving such key issues as passing public hearings and obtaining the permit of KyivEnergo for removal of the power substation from the site. On the back of this, in autumn 2011, we started preliminary ground and demolition works over the existing service centre building. Subject to securing debt finance, the full-fledged construction is set to start in 2-3Q2012. The Company had secured a credit line for the development in 3Q2011 from a leading international bank, which had to withdraw its commitment following introduction of financial security measures in the EU. As bank financing still remains largely unavailable for residential development projects in Ukraine, we have commenced negotiations with certain mezzanine investors, considering high-yield debt to fund the construction of the first tower.

Mainly due to the land reform introducing new rezoning and property acts registration procedures, the finalization of the rezoning process under the two land banking projects was delayed. As the procedures are now estimated to be significantly lengthier than expected to have been from the beginning of 2012, the Board has instructed the valuator to be determining the fair market value of the land bank, discounting entirely the rezoning progress, until it is completed. The total effect of such conservative approach resulted in a decrease of the land bank's value to USD 67.1 million, bringing it to slightly above half of its costs. Company has not been able to complete rezoning of its land banking projects in 2011. Nevertheless, we did manage to pass the key permit on one of the two projects – approval of the Kyiv region council – and expect to complete rezoning of at least a part of the land holding within 12 months. Upon rezoning as the local land market remains stagnant with demand mostly originating from private individuals rather than development companies, we have set retail sales as a priority divestment channel in the short-run, incorporating a set of small land plots into the masterplan of the territory, readily available for retail sale upon completion of the rezoning process.

Market Overview

Retail

Last year we saw recovery continue across all property market sectors, fueled by economic growth and increasing consumer spending. The retail property market, the undisputed leader, rebounding strongly for the second year in a row and nearly reaching pre-crisis levels of vacancy (1.7%), benefited from 15% y-o-y growth in retail trade turnover in real terms. New supply was nearly non-existent, but higher development yield attracted new investments into the sector with four large shopping centre projects currently underway in the central Kyiv, and the total stock expected to double in 2014 reaching 1.4 million m2.

Office and Warehouse

In the office market, new supply totaled 85,000 m2 in 2011 bringing Kyiv's office stock to 1.3 million m2, while take-up reached 170,000 m2 (+40% y-o-y) driven by more robust business activity. This narrowed the vacancies to 13.5% and allowed rents to further recover, reaching USD 38/m2/month (excl. VAT) for prime Class A premises still half of 2007-2008 levels however, and leaving room for long-term improvement.

Similarly, industrial properties, the most depressed segment after the crisis, started to recover driven by business expansion and relocation, with 2011 take-up totaling 200,000 m2 vs.140,000 m2 of new deliveries, thus exerting downward pressure on vacancy rates (17% down from 19%) and keeping rents stable at USD 6/m2/month.

Residential

Low household income and slow recovery of mortgage lending, which was hampered in 2H 2011 by turbulence in the European capital markets, kept demand for housing subdued in 2011 with still only 7% of total deals financed by mortgage loans (vs. 30% in 2007). Supported by growing demand and stagnating supply, apartment prices in Kyiv rose by 4% y-o-y to USD 1,612/m2 on average with the number of new apartments sold tripling last year. Still the recovery has a long way to go as the number of transactions in 2011 constituted only 55% of the 2007 record high, while in Moscow, for example, the market registered a new all-time high.

Given that the market is fundamentally undersupplied, with average residential space per capita at 23.9 m2 against 35 m2 for CEE, expansion of banks' home loans programs will be driving residential sales in 2012-15. Pre-crisis levels will be reached, though, not sooner than in 2014-15 due to very gradual recovery of mortgages. In the meantime, severe undersupply of quality residential space will be likely putting upward pressure on prices.

Land

The domestic land market remained stagnant in 2011 with prices depressed due to limited commercial and residential market activity, anemic mortgage financing and slow pace of land market reform. Same as last year, rapid land market recovery is not expected in 2012 with activity booming after the government completes land market liberalization, which is now expected in January 2013 with the sanctioning of agricultural land sales.

Project Overview

Arricano

The Arricano portfolio, consisting of international quality shopping malls, is unique for the Ukrainian market where both professional retail space and specialised retail developers are highly scarce.

Summary

Total Commitment:	USD 30 million
Invested:	USD 30 million
DUPD Share:	16.7%

1 Sky Mall (Kyiv)

Gross leasable area (operating):	67,042 m2
Gross leasable area (to be developed):	46,510 m2
Key Tenants:	Auchan, Comfy, Inditex, New Look, Top Shop, Marks & Spencer, Bonjour, New Yorker, Cronverk

2 M26 – Rayon (Kyiv)

Gross leasable area (to be developed):	22,894 m2
Key Tenants (pre-leased):	Silpo, Comfy, Reserved, Sportmaster, Brocard

3 Sun Gallery (Kryvyi Rig)

Gross leasable area (operating):	34,012 m2
Key Tenants:	Auchan, Comfy, Intertop, Brocard

4 Intermall (Simferopol)

Gross leasable area (operating):	12,902 m2
Gross leasable area (to be developed):	25,304 m2
Key Tenants:	Furshet, Comfy, Intertop, Brocard

5 City Mall (Zaporizhzhya)

Gross leasable area (operating):	22,094 m2
Key Tenants:	Auchan, Comfy, Collins, Brocard, Columbia, Womens Secret, Levis

Riviera Villas

- Riviera Villas is differentiated among other up-scale residential developments in Kyiv by its unique architectural style and its extensive and luxurious social infrastructure.
- Utilities are on the site and waterfront infrastructure is completed.
- Six homes sold.
- First street out of four has been completed.
- Stock of 12 homes available for sale.

Details

Location:	Kyiv suburbs
Land Title:	Freehold

Land Area:	12.6 ha
Total Commitment:	USD 16.3m
Invested:	USD 16.1m
Est Completion Date:	2014
DUPD Share:	59.6%

Green Hills

- Located on a picturesque hill bordering a forest area with small river and lakes nearby, which makes it ideal for a gated community.
- Close proximity to Kyiv (10 km) and convenient transport access.
- The first North American style cottage community developed by an international investor in Ukraine.
- All infrastructure is in place, which differentiates Green Hills from peer projects.

Details

Location:	Kyiv suburbs
Land Title:	Freehold
Land Area:	16.2 ha
Total Commitment:	USD 22.1m
Invested:	USD 21.6m
Est Completion Date:	2014-2015
DUPD Share:	100%

Henryland

- Secured anchor tenant
- Long-term international standards lease agreement
- Low level or absence of competitive retail schemes
- Three schemes out of six operational
- USD 569,000 dividend received

Details

Location:	1. Kremenchuk, 2. Lutsk, 3. Vinnytsia, 4. Mykolaiv, 5. Odesa, 6. Bila Tserkva
Land Title:	Freehold/Leasehold
Land Area:	22.8 ha in aggregate
GLA:	99,200 m2
Total Commitment:	USD 14.7m
Invested:	USD 14.0m
Est Completion Date:	Date: n/a
DUPD Share:	38%

Avenue Shopping Centre

- Strong retail location and low level of competition
- Professional concept design by Colliers Int.
- Project Design Documentation completed and approved by Kyiv Architectural Administration
- Construction permit pending

Details

Location:	Kyiv
Land Title:	Leasehold
Land Area:	1.2 ha
GLA:	26,300 m2
Total Commitment:	USD 1.5m
Invested:	USD 1.5m
Est Completion Date:	N/A
DUPD Share:	18.7%

Glangate

- Two community shopping centers in second-tier regional cities
- Low level of competition
- Retailers' focus on Kyiv limits leasing potential in smaller cities
- Kremenchuk – design documentation completed and approved by State Expertise;
- Rivne – land plot consolidated and partially rezoned

Details

Location:	1. Kremenchuk 2. Rivne
Land Title:	Freehold/Leasehold
Land Area:	9.4 ha aggregate
GLA:	45,500 m2
Total Commitment:	USD 12.5m
Invested:	USD 10.5m
Est Completion Date:	2013-2014
DUPD Share:	100%

Landbank

- Land is registered on legal entities
- The Company is set to monetise its investment by gradual sale of rezoned land, suitable for construction of residential and commercial facilities

Details

Location:	Kyiv suburbs
Land Title:	Freehold
Land Area:	510 ha
Total Commitment:	USD 127.8m
Invested:	USD 124.8m
DUPD Share:	85%

Obolon

- Business class residential complex with office and retail premises
- Favorable location on the central square of Obolon district in Kyiv
- Facade and commercial premises designed by Benoy (UK)
- Project design documentation completed and approved by State Expertise

Details

Location:	Kyiv
Land Title:	Leasehold
Land Area:	1.07 ha
Sales area (excluding parking):	37,600 m2
Total Commitment:	USD 25.7m
Invested:	USD 21.5m
Est Completion Date:	2016-2017
DUPD Share:	98.2%

Sadok Vyshnevy

- 38 apartments in a constructed town-house community in Kyiv suburbs
- Utilities are on the site
- Individual property acts received for each of the properties

All homes commissioned

Details

Location:	Kyiv suburbs
Land Title:	Freehold
Land Area:	1.6 ha
Total Commitment:	USD 13.2m
Invested:	USD 13.1m
Est Completion Date:	completed
DUPD Share:	100%

(in thousands of USD)	*Note*	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Assets					
Non-current assets					
Investment properties	*4, 5*	**77,039**	**2**	79,862	2
Prepayments for land	*6*	**67,100**	**-**	124,094	-
Investments in subsidiaries	*8*	**-**	**6,545**	-	6,545
Investments in associates	*7*	**43,863**	**42,239**	46,653	42,293
Long-term loans receivable	*9*	**920**	**-**	2,110	-
Property and equipment		**20**	**-**	41	-
Intangible assets		**14**	**10**	31	18
Total non-current assets		**188,956**	**48,796**	252,791	48,858
Current assets					
Inventories	*10*	**10,248**	**-**	12,237	-
Loans to Group companies	*12*	**-**	**150,956**	-	258,353
Short-term loans receivable	*9*	**-**	**-**	346	-
Trade and other receivables	*11*	**1,749**	**352**	1,514	353
VAT recoverable		**744**	**-**	358	-
Prepaid income tax		**59**	**-**	52	-
Financial instruments (call option)	*7*	**-**	**-**	2,637	-
Cash and cash equivalents	*13*	**28,704**	**23,052**	44,915	23,736
Total current assets		**41,504**	**174,360**	62,059	282,442
Total assets		**230,460**	**223,156**	314,850	331,300

The consolidated and Parent Company statements of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 20 to 65.

(in thousands of USD)	*Note*	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Equity and Liabilities					
Equity	*14*				
Share capital		**2,187**	**2,187**	2,354	2,354
Share premium		**277,265**	**277,265**	282,077	282,077
(Accumulated losses) retained earnings		**(61,560)**	**(57,984)**	12,404	44,298
Total equity attributable to equity holders of the Parent Company		**217,892**	**221,468**	296,835	328,729
Non-controlling interest		**(4,582)**	**-**	(1,058)	-
Total equity		**213,310**	**221,468**	295,777	328,729
Non-current liabilities					
Finance lease liabilities	*4, 15*	**3,098**	**-**	3,272	-
Deferred tax liabilities	*16*	**10,777**	**-**	11,926	-
Total non-current liabilities		**13,875**	**-**	15,198	-
Current liabilities					
Trade and other payables	*17*	**3,240**	**1,688**	3,870	2,571
Current portion of finance lease liabilities	*4, 15*	**31**	**-**	1	-
Income tax payable		**4**	**-**	4	-
Total current liabilities		**3,275**	**1,688**	3,875	2,571
Total liabilities		**17,150**	**1,688**	19,073	2,571
Total equity and liabilities		**230,460**	**223,156**	314,850	331,300

These consolidated and Parent Company financial statements were approved by the Board of Directors on 26 April 2012 and were signed on its behalf by:

Chairman of the board Aloysius Johannes Van der Heijden

Non-executive director Fredrik Svinhufvud

The consolidated and Parent Company statements of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 20 to 65.

(in thousands of USD)	*Note*	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Rental income from investment property		**34**	**-**	503	-
Profit (loss) from sales of investment properties		**287**	**636**	(89)	668
(Loss) profit on revaluation of investment properties	*5*	**(9,291)**	**-**	491	-
Impairment loss on prepayments for land	*6*	**(57,744)**	**-**	-	-
Write-down of trading property to net realisable value	*10*	**(2,000)**	**-**	(10)	-
Management fee	*18*	**(3,315)**	**(3,315)**	(4,519)	(4,519)
Administrative expenses	*20*	**(1,920)**	**(678)**	(2,252)	(657)
Other income		**25**	**-**	-	-
Other expenses		**(371)**	**-**	(68)	-
Loss from operating activities		**(74,295)**	**(3,357)**	(5,944)	(4,508)
Gain on acquisition of associate	*7*	**-**	**-**	15,640	-
Loss from reduction of shareholding in associate	*7*	**-**	**-**	(13,512)	-
(Impairment) recovery of investments		**-**	**(54)**	-	1,191
Net finance (costs) income	*21*	**(2,131)**	**(98,877)**	1,607	17,508
Share of the (loss) profit of associates	*7*	**(2,217)**	**-**	341	-
(Loss) profit before income tax		**(78,643)**	**(102,288)**	(1,868)	14,191
Income tax benefit	*16*	**1,149**	**-**	3,738	-
Net (loss) profit and total comprehensive (loss) income for the year		**(77,494)**	**(102,288)**	1,870	14,191
Attributable to:					
Equity holders of the Parent Company		**(73,970)**	**(102,288)**	2,365	14,191
Non-controlling interest		**(3,524)**	**-**	(495)	-
Net (loss) profit and total comprehensive (loss) income for the year		**(77,494)**	**(102,288)**	1,870	14,191
(Loss) earnings per share					
Basic (loss) earnings per share (in USD)	*23*	**(0.63)**	**(0.87)**	0.02	0.12
Diluted (loss) earnings per share (in USD)	*23*	**(0.63)**	**(0.87)**	0.02	0.12

The Directors believe that all results derive from continuing activities.

The consolidated and Parent Company statements of comprehensive income are to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 20 to 65.

(in thousands of USD)	_Note_	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Cash flows from operating activities					
(Loss) profit before income tax		**(78,643)**	**(102,288)**	(1,868)	14,191
Adjustments for:					
Write-down of trading property to net realisable value	_10_	**2,000**	**-**	10	-
Gain on acquisition of associate	_7_	**-**	**-**	(15,640)	-
Loss from reduction of shareholding in associate	_7_	**-**	**-**	13,512	-
Impairment (recovery) of investments		**-**	**54**	-	(1,191)
(Gain) loss on revaluation of investment properties	_5_	**9,291**	**-**	(491)	-
Impairment loss on prepayments for land	_6_	**57,744**	**-**	-	-
Depreciation		**38**	**8**	37	10
Share of the loss (profit) of associates	_7_	**2,217**	**-**	(341)	-
Unrealised currency exchange losses	_21_	**96**	**15**	19	6
Net finance costs (income), excluding unrealised currency exchange losses	_21_	**2,035**	**98,862**	(1,626)	(17,514)
Operating cash flows before changes in working capital		**(5,222)**	**(3,349)**	(6,388)	(4,498)
Change in inventories		**(11)**	**-**	(5)	-
Change in trade and other receivables		**(685)**	**1**	1,955	345
Change in trade and other payables		**(626)**	**(883)**	333	171
Change in loans to Group companies		**-**	**7,956**	-	(22,955)
Share-based payments	_19_	**6**	**6**	10	10
Income tax paid		**(7)**	**-**	(48)	-
Interest paid		**(379)**		(502)	-
Cash flows (used in) from operating activities		**(6,924)**	**3,731**	(4,645)	(26,927)

The consolidated and Parent Company statements of cash flows are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 20 to 65.

.

(in thousands of USD)	*Note*	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Cash flows from investing activities					
Interest received		**348**	**10**	1456	69
Acquisition and development of investment property	*5*	**(6,233)**	**-**	(3,929)	-
Acquisition of property, equipment and intangible assets		**-**	**-**	(1)	-
Prepayments for land	*6*	**(750)**	**-**	(3,607)	-
Loans granted		**(2,701)**	**-**	(737)	-
Repayments of loans		**4,555**	**-**	202	-
Investments in subsidiaries		**-**	**-**	-	(1)
Dividends received	*7*	**569**	**569**	-	-
Investments in associates	*7*	**-**	**-**	(30,000)	(30,000)
Cash flows (used in) from investing activities		**(4,212)**	**579**	(36,616)	(29,932)
Cash flows from financing activities					
Purchase of own shares	*14*	**(4,979)**	**(4,979)**	-	-
Cash flows from financing activities		**(4,979)**	**(4,979)**	-	-
Net decrease in cash and cash equivalents		**(16,115)**	**(669)**	(41,261)	(56,859)
Cash and cash equivalents at 1 January		**44,915**	**23,736**	86,195	80,595
Effect of foreign exchange fluctuation on cash balances		**(96)**	**(15)**	(19)	-
Cash and cash equivalents at 31 December		**28,704**	**23,052**	44,915	23,736

The consolidated and Parent Company statements of cash flows are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 20 to 65

.

Consolidated

(in thousands of USD)	Attributable to equity holders of the Parent Company Share capital	Share premium	(Accumulated losses) retained earnings	Total	Non-controlling interest	Total
Balances at 1 January 2010	2,354	282,077	10,029	294,460	(563)	293,897
Total comprehensive income (loss) for the year						
Net profit (loss)	-	-	2,365	2,365	(495)	1,870
Total comprehensive income (loss) for the year	-	-	2,365	2,365	(495)	1,870
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based compensation	-	-	10	10	-	10
Total contributions by and distributions to owners	-	-	10	10	-	10
Balances at 31 December 2010	2,354	282,077	12,404	296,835	(1,058)	295,777
Total comprehensive loss for the year						
Net loss	**-**	**-**	**(73,970)**	**(73,970)**	**(3,524)**	**(77,494)**
Total comprehensive 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)**
Balances at 31 December 2011	**2,187**	**277,265**	**(61,560)**	**217,892**	**(4,582)**	**213,310**

The consolidated and Parent Company statements 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 20 to 65.

Parent Company

(in thousands of USD)	**Share capital**	**Share premium**	**(Accumulated losses) retained earnings**	**Total**
Balances at 1 January 2010	2,354	282,077	30,097	314,528
Total comprehensive income for the year				
Net profit	-	-	14,191	14,191
Total comprehensive income for the year	-	-	14,191	14,191
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Share-based compensation	-	-	10	10
Total contributions by and distributions to owners			10	10
Balances at 31 December 2010	2,354	282,077	44,298	328,729
Net loss	**-**	**-**	**(102,288)**	**(102,288)**
Total comprehensive loss for the year	-	-	**(102,288)**	**(102,288)**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Own shares acquired	**(167)**	**(4,812)**	**-**	**(4,979)**
Share-based compensation	**-**	**-**	**6**	**6**
Total contributions by and distributions to owners	**(167)**	**(4,812)**	**6**	**(4,973)**
Balances at 31 December 2011	**2,187**	**277,265**	**(57,984)**	**221,468**

The consolidated and Parent Company statements 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 20 to 65.

1 Background

(a) Organization 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 31 December 2011 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 have 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 and Parent Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated and Parent Company 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 and Parent Company 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 Parent Company 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 5 - valuation of investment properties
- note 6 – valuation of prepayments for land
- note 10 – net realisable value of trading property
- note 19 - measurement of share-based payments
- notes 3(d) and 3(h) - classification between investment properties and inventories

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.

No changes in accounting policies were made in 2011 as a result of adoption of new accounting standards.

Certain comparative amounts have been reclassified to conform to the current year presentation (see note 4).

(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	
			2011	2010	**2011**	2010
(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	(2)	Ukraine	**-**	-	**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	**46**	46	**100%**	100%
Ukrainian Properties LTD		Cyprus	**1**	1	**100%**	100%
Blueberg Trading Ltd	(1)	BVI	**-**	-	**100%**	-
Stenfield Finance Ltd	(1)	BVI	**-**	-	**100%**	-
Noviy Region LLC		Ukraine	**4,507**	4,507	**100%**	100%
Rivnobud LLC	(3)	Ukraine	**4,471**	4,471	**100%**	100%
Commercial project LLC	(3)	Ukraine	**1**	1	**100%**	100%
Riviera Villas LLC		Ukraine	**-**	-	**100%**	100%

(1) – newly established subsidiaries

(2) –special purpose entity as at 31 December 2010, and the Group's legal subsidiary as at 31 December 2011 (see note 3(a)(ii))

(3) – asset acquisition in 2010 (see note 5)

(ii) Special purpose entities

During 2010 the Group sold its direct shareholding in Grand Development LLC and repurchased 100% interest back on 23 February 2011 through a newly established British Virgin Island subsidiary Blueberg Trading Ltd. The purpose of this was to consolidate all infrastructure assets of the gated community project Green Hills and make them easily divestible at the completion of the project. As the Group has effectively controlled this entity all the time, it consolidated Grand Development LLC as a special purpose entity (SPE) as at 31 December 2010. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The SPE controlled by the Group was established under terms that impose strict limitations on the decision-making powers of the SPEs' Directors and that result in the Group receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

As at 31 December 2011 the Group had no special purpose entities.

(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 7).

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 11, loans receivable as presented in note 9, loans to Group companies as presented in note 12 and cash and cash equivalents as presented in note 13.

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 17 and finance lease liability as presented in note 15.

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 31 December 2011, 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.
- 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.

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. 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 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Corresponding figures - change in presentation

During the year ended 31 December 2011, the Directors identified certain areas for improvement in order to achieve a more appropriate presentation of the consolidated financial statements. International Financial Reporting Standard IAS 1 *Presentation of Financial Statements* requires that comparative amounts are reclassified when presentation or reclassification of items is changed in the financial statements. The Directors reclassified amounts by adjusting the respective balances as at 31 December 2010. The following presentation was changed in the statement of financial position:

Offsetting of investment properties and finance lease liabilities

In the consolidated financial statements as at and for the year ended 31 December 2010, the carrying amount of investment properties included finance lease liabilities and was presented on a net basis. During the year ended 31 December 2011, the Directors decided to present investment properties and finance lease liabilities on a gross basis in order to achieve a more appropriate presentation of the consolidated financial statements. Investment properties and finance lease liabilities are presented on a gross basis in 2011.

Summary of reclassifications

The summary of reclassifications to the consolidated statement of financial position as at 31 December 2010 is as follows:

(in thousands of USD)	**31 December 2010, as previously reported**	**Effect of grossing up investment properties and finance lease liabilities**	**31 December 2010, as currently presented**
Consolidated statement of financial position			
Investment properties	76,589	3,273	79,862
Finance lease liability	-	3,272	3,272
Current portion of finance lease liability	-	1	1

The reclassification between investment properties and finance lease liabilities has no effect on the consolidated statements of comprehensive income for the years ended 31 December 2011 and 2010.

The following corresponding figures as at 31 December 2010 in the consolidated statement of cash flows are reclassified to conform to the current period presentation: interest paid was increased and acquisition and development of investment property was decreased by USD 502 thousand.

5 Investment properties and property under construction

Movements in investment properties for the year ended 31 December are as follows:

(in thousands of USD)	*Note*	**Freehold land**	**Leasehold land**	**Total**
At 1 January 2010		31,110	38,607	69,717
Asset acquisition*		5,352	-	5,352
Construction		2,277	3,438	5,715
Disposal of investment property		(1,413)	-	(1,413)
Fair value gain (loss) on revaluation		(337)	828	491
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		**36,711**	**40,328**	**77,039**

*During the year ended 31 December 2010 the Group recognised the acquisition of subsidiaries Rivnobud LLC and Commercial project LLC as acquisitions of assets since the entities had no operations or business activities.

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.

Mountcrest 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:

- Mountcrest Limited is to bear or reimburse 58.21% of costs incurred in the process of land plot development and Intendancy Limited 41.79%;
- Mountcrest 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: Montcrest 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 31 December 2011 are as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 9 to USD 48 per sq.m.
- 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.

As at 31 December 2010 respective assumptions were as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 19 to USD 40 per sq.m.
- development costs based on current construction prices
- discount rate -10%
- developer's profit ranging from 20% to 25%
- 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.

Sensitivity

If rental rates are 1% less than those used in valuation model, the fair value of investment properties as at 31 December 2011 would be USD 700 thousand lower (2010: USD 851 thousand). If rental rates are 1% higher, then the fair value of investment properties as at 31 December 2011 would be USD 600 thousand higher (2010: USD 1,029 thousand).

If development costs are 5% higher than those used in the valuation model, the fair value of investment properties as at 31 December 2011 would be USD 7,036 thousand lower (2010: USD 5,166 thousand). If development costs are 5% less, then the fair value of investment properties as at 31 December 2011 would be USD 6,876 thousand higher (2010: USD 5,366 thousand).

If the discount rate applied is 1% higher than that used in the valuation model, the fair value of investment properties as at 31 December 2011 would be USD 2,338 thousand lower (2010: USD 2,129 thousand). If the discount rate is 1% less, then the fair value of investment properties as at 31 December 2011 would be USD 2,379 thousand higher (2010: USD 2,424 thousand).

6 Prepayments for land

During 2011 the Group made prepayments for land acquisition totalling USD 750 thousand (land bank project). As a result of this transaction the gross prepayments for land before impairment losses, increased from USD 124,094 thousand as at 31 December 2010 to USD 124,844 thousand as at 31 December 2011.

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 31 December 2011. Recent changes in legislation have resulted in further delay in completion of rezoning by approximately nine 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 of 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	Pledgor	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.	**56,269**	**56,269**
			124,844	**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 6.

7 Investments in associates

The Group has the following investments in associates as at 31 December 2011:

Name	Country	Ownership/Voting 2011	2010
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)
2010					
Henryland Group Ltd.	38.00%	38,611	6,261	3,265	5,778
Hindale Executive Investments Limited	18.77%	20,380	3,318	-	640
Arricano Trading Limited	16.67%	463,209	276,297	14,466	43,009
		522,200	285,876	17,731	49,427
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**

During 2011 the Group received dividends of USD 569 thousand from its investments in Henryland Group Ltd (2010: nil).

In October 2009, due to the fact that certain conditions set out in the shareholders' agreement between the Group and the 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 excess of the fair value of the shares over the purchase price was determined by the Group to be the fair value of the call option and was recognised in the consolidated statement of financial position as at 31 December 2009. The option has no expiry date.

During the year ended 31 December 2011 the estimated fair value of the call option decreased by USD 2,637 thousand (2010: increased by USD 200 thousand) due to a decrease in the estimated fair value of investment properties relating to the Avenue project. The loss on revaluation of the call option is recognised in profit or loss in net finance costs.

Investment in Arricano Group Ltd in 2010

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. Arricano holds a 100% interest in four shopping centres across Ukraine and a stake of 50% minus one share in an entity holding the Sky Mall shopping centre in Kyiv (the Sky Mall project). In relation to the Sky Mall project, Arricano had entered into a call option agreement with its local partner Stockman Interhold SA (Stockman) in this project, whereby it could acquire the remaining shareholding of 50% plus one share at a pre-agreed valuation of USD 51,000 – 56,000 thousand, depending on the timing (the Sky Mall Call Option). The period of execution of the Sky Mall Call Option had been set from 15 November 2010 to 15 March 2011.

Since Arricano effectively controlled the Sky Mall project though its 50% minus one share ownership and call option to acquire the remaining 50% plus one share, it consolidated the Sky Mall project in its consolidated financial statements as at and for the year ended 31 December 2010.

Accordingly, Arricano had made a provision for the cost of the Sky Mall Call Option in the amount of USD 56,000 thousand (the maximum amount that had to be paid under the Sky Mall Call Option agreement) reduced by equity attributable to non-controlling interest of USD 20,780 thousand.

The identifiable net assets of Arricano were as follows at the date of acquisition:

(in thousands of USD)	**Total recognised fair values**	**Group's share of recognised fair values**
Identifiable net assets attributable to Arricano	51,741	18,109
Loans receivable planned to be assigned to Arricano	113,879	39,858
Maximum consideration for call option adjusted for equity attributable to non-controlling interest	(35,220)	(12,327)
Identifiable net assets	**130,400**	**45,640**
Gain on acquisition (negative goodwill)		15,640
Consideration paid		30,000

As at 31 December 2010 the net assets of Arricano included the following:

(in thousands of USD)	**Total recognised carrying values**
Net assets attributable to Arricano	108,253
Loans receivable planned to be assigned to Arricano	113,879
Maximum consideration for call option adjusted for equity attributable to non-controlling interest	(35,220)

Net assets	**186,912**

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 adjusted for repayment of loans provided by Swedbank to the Sky Mall project in the amount of USD 20,715 thousand.

Reduction of shareholding in associate in 2010

Expert Capital SA (the 65% shareholder in Arricano immediately after the Parent Company acquired a 35% stake in Arricano) and the Parent Company also agreed to consider a further capital increase into Arricano of USD 60,000 thousand with the aim to finance the Sky Mall Call Option and partial completion of the development of the second stage of the InterMall shopping centre (Simferopol) and repay certain indebtedness. During November 2010 USD 60,000 thousand was paid by Expert Capital SA in return for 3,385 newly issued ordinary shares in Arricano. Following the share capital increase and the issue of new shares, the stake of the Parent Company decreased to 16.67%.

The net assets of Arricano were as follows at the date of dilution of the non-controlling interest in Arricano:

(in thousands of USD)	**Recognised fair values**
Identifiable net assets before share capital increase (dilution)	128,282
Group's share (35%) in the identifiable net assets	44,899
Identifiable net assets after share capital increase (dilution)	188,282
Group's share (16.67%) in the identifiable net assets	31,387
Loss on disposal of non-controlling interest	**13,512**

Such dilution was in line with the original plan foreseen in the SHA.

Having obtained sufficient funds, in November 2010 Arricano tried to initiate the execution of the Sky Mall Call Option. However, in 2010 the following legal proceedings with Stockman were initiated and remained outstanding as at the date the consolidated and Parent Company financial statements as at and for the year ended 31 December 2010 were issued:

- On 9 November 2010 Stockman initiated arbitration proceedings against Arricano in relation to the validity of the termination of the agreement on the Sky Mall Call Option. The case was under consideration by The London Court of International Arbitration (LCIA).
- On 21 December 2010 Arricano initiated arbitration proceedings against Stockman in relation to the validity of the termination of the shareholders agreement between the parties. The case was under consideration by The United Nations Commission on International Trade Law (UNCITRAL).

Due to these arbitration proceedings between Arricano and Stockman, the call option was not exercised as at 31 December 2010.

Arricano's management believed that it was likely that Arricano would win the above mentioned arbitration cases. Therefore, it considered that the call option was deemed to be exercisable as at 31 December 2010 and was taken into account in assessing whether it had control over Sky Mall project in accordance with International Financial Reporting Standard IAS 27 *Consolidated and Separate Financial Statements*. The Sky Mall project was, therefore, consolidated.

Loss of control over the Sky Mall project in 2011

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 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.

As a result of the above events Arricano is no longer able to execute its call option and there are no other factors which would indicate that Arricano retains control over Sky Mall project. Therefore, as at 9 June 2011, Arricano has effectively lost the control over Sky Mall project. Consequently, this subsidiary has been deconsolidated at the date of loss of control and is subsequently accounted for as Arricano's associate. Accordingly, Arricano has reversed a provision for the cost of the Sky Mall Call Option in the amount of USD 56,000 thousand (maximum amount to be paid under the Sky Mall 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 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 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.

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, 26 April 2012, there is ongoing litigation between Arricano and Stockman that may ultimately impact the control relationship, as well as delay the contribution of the loans extended to the Sky Mall project that are planned to be assigned to the SPV.

8 Investments in subsidiaries

Investments in subsidiaries as at 31 December are as follows:

(in thousands of USD)	**2011**	2010
Glangate LTD	**2**	2
Landshere LTD	**3**	3
Landzone LTD	**6,503**	6,503
Linkdell LTD	**3**	3
Linkrose LTD	**3**	3
Mountcrest LTD	**64**	64
Riverscope LTD	**3**	3
Startide LTD	**3**	3
Ukrainian Development Holding LTD	**46**	46
Ukrainian Properties LTD	**1**	1
	6,631	6,631
Impairment	**(86)**	(86)
	6,545	6,545

9 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 31 December 2011 long-term loans receivable due from Commercial Construction LLC totals USD 920 thousand, including accrued interest of USD 81 thousand (31 December 2010: USD 1,439 thousand, including accrued interest of USD 64 thousand).

As at 31 December 2010 the remaining part of long-term loan receivable of USD 671 thousand, including accrued interest of USD 21 thousand, represented a loan provided by the Group to Kalinovka Construction LLC at a 10% fixed interest rate. The loan was repaid in full in 2011. The primary purpose of this loan was to finance the construction of showcase houses in the project Riviera Villas.

As at 31 December 2010 the short-term loans receivable of USD 346 thousand represented a loan granted to an unrelated party, Morgan Furniture Ltd. This loan was repaid in full on 10 March 2011.

10 Inventories

Inventories as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent Company 2011**	Consolidated 2010	Parent Company 2010
Trading property	**10,200**	**-**	12,200	-
Other inventory	**47**	**-**	36	-
Construction materials	**1**	**-**	1	-
Total	**10,248**	**-**	**12,237**	-

As at 31 December 2011 and 2010 trading property is represented by the gated community Sadok Vyshnevyi (38 newly constructed houses and relevant land plots). Sadok Vysnevyi was acquired by the Group as a settlement of the Group's deposit in Rodovid bank of USD 12,675 thousand in 2009.

As at 31 December 2011 trading property of USD 10,200 thousand (2010: USD 12,200 thousand) represents the net realisable value as defined by the independent appraiser. The impairment loss for the year ended 31 December 2011 of USD 2,000 thousand (31 December 2010: USD 10 thousand) was recognised in profit or loss.

11 Trade and other receivables

In January 2010 a portion of the loan 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 31 December 2011 the remainder of the debt of Intendancy Ltd of USD 272 thousand is included in other receivables.

Other receivables include a receivable due from Intendancy Ltd in the amount of 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 5). The balance was settled at the beginning of 2012.

Trade and other receivables as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Other receivables	**1,291**	**333**	1,316	334
Prepayments made	**458**	**19**	134	19
Accrued interest	**-**	**-**	64	-

Total	**1,749**	**352**	1,514	353

12 Loans to Group companies

Loans to Group companies as at 31 December are as follows:

(in thousands of USD)	**2011**	2010
Loans to Group companies	**267,547**	258,353
Allowance for impairment	**(116,591)**	-
	150,956	258,353

The loans to Group companies are denominated in USD, unsecured, interest free or interest bearing (up to 11%) and repayable on demand.

The movement in the allowance for impairment in respect of loans to Group companies during the year ended 31 December was as follows:

(in thousands of USD)	**2011**	2010
Balance at 1 January	**-**	-
Impairment loss recognised	**(116,591)**	-
Balance at 31 December	**(116,591)**	-

The impairment loss on loans to Group companies is included in net finance costs, and results from the decline in fair value of land plots held by the Group companies that serve as collateral for these loans, and decline in fair value of the investment properties held by the Group companies.

13 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Bank balances	**2,903**	**2,252**	16,415	236
Call deposits	**25,801**	**20,800**	28,500	23,500
Total	**28,704**	**23,052**	44,915	23,736

The following table represents an analysis of cash and cash equivalents based on Fitch ratings or their equivalent as at 31 December:

	Consolidated 2011	**Parent company 2011**	Consolidated 2010	Parent company 2010
(in thousands of USD)				
Bank balances				
AA	**15**	**15**	-	-
AA-	**-**	-	236	236
A+	**2**	**2**	-	-
A	**2,273**	**2,235**	-	-
BB+	**356**	-	623	-
B	**257**	-	15,556	-
	2,903	**2,252**	16,415	236
Call deposits				
AA	**20,800**	**20,800**	16,500	16,500
AA-	**-**	-	12,000	7,000
A	**5,000**	-	-	-
BB+	**1**	-	-	-
	25,801	**20,800**	28,500	23,500
Total	**28,704**	**23,052**	44,915	23,736

14 Equity

Movements in share capital and share premium as at 31 December are as follows:

	Ordinary shares *Number of shares*	**Amount** *Thousand 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**

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.

15 Finance lease liabilities

Finance lease liabilities as at 31 December are as follows:

(in thousands of USD)	**Future minimum lease payments 2011**	**Interest 2011**	**Present value of minimum lease payments 2011**	Future minimum lease payments 2010	Interest 2010	Present value of minimum lease payments 2010
Less than one year	**499**	**468**	**31**	501	500	1
Between one and five years	**1,968**	**1,786**	**182**	2,004	2,002	2
More than five years	**17,013**	**14,097**	**2,916**	21,990	18,720	3,270
	19,480	**16,351**	**3,129**	24,495	21,222	3,273

The imputed finance costs on the liabilities are based on the Group's incremental borrowing rate in UAH (15.0% p.a., 2010: 15.3%). 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 31 December 2011 are based on the Directors' assessment and calculated based on the actual lease payments effective as at 31 December 2011. The future lease payments are subject to review and approval by the municipal authorities and may differ from the Directors' assessment.

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.

16 Income tax expense

(a) Income tax expense

Income taxes for the years ended 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent Company 2011**	Consolidated 2010	Parent Company 2010
Current tax expense	**-**	**-**	(4)	-
Deferred income tax benefit	**1,149**	**-**	3,742	-
Total income tax benefit	**1,149**	**-**	3,738	-

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 years ended 31 December 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)	**2011**	**%**	2010	%
Loss before income tax	**(78,643)**	**100**	(1,868)	100
Computed expected income tax benefit at statutory rate	**(18,087)**	**23**	(467)	25
Effect of income taxed at lower tax rates	**7,368**	**(10)**	(1,477)	79
Reduction in tax rate	**-**	**-**	(4,122)	221
Non-taxable income (income earned by holding companies)	**-**	**-**	(24)	1
Change in unrecognised temporary differences	**8,911**	**(11)**	1,281	(69)
Non-deductible expenses	**659**	**(1)**	1,071	(57)
Effective income tax benefit	**(1,149)**	**1**	(3,738)	200

(c) Recognised deferred tax liabilities

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)**

The movement in deferred tax liabilities for the year ended 31 December 2010 is as follows:

(in thousands of USD)	**1 January 2010 liability**	**Recognised in income**	**Acquisition of subsidiary**	**31 December 2010 liability**
Investment properties	(15,054)	3,452	(836)	(12,438)
Finance lease liabilities	222	290	-	512
Deferred tax liabilities	(14,832)	3,742	(836)	(11,926)

(d) Unrecognised deferred tax assets

Deferred tax assets as at 31 December have not been recognised in respect of the following items:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Prepayment for land	**5,774**	**-**	-	-
Trading property	**247**	**-**	-	-
Tax loss carry-forwards	**4,982**	**-**	2,092	-
	11,003	**-**	2,092	**-**

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.

17 Trade and other payables

Trade and other payables as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Management and performance fees	**1,089**	**1,089**	2,301	2,301
Other payables and accrued expenses	**2,151**	**599**	1,569	270
Total current liabilities	**3,240**	**1,688**	3,870	2,571

18 Management and performance fees

Management and Performance fees for the years ended 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Management fee	**3,315**	**3,315**	4,519	4,519
Total	**3,315**	**3,315**	4,519	4,519

Initial 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 was 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.

GAV was calculated on a semi-annual basis and was derived from the consolidated statement of financial position after adding back any dividends declared or paid in relation to such accounting period.

For these purposes GAV was the aggregate of the consolidated non-current and current assets adjusted to reflect the value of investment properties and other assets representing interests in property or property related activities valued in accordance with the Group's property valuation policy less consolidated liabilities, excluding bank or third party indebtedness directly related to the relevant real estate.

The Manager was also entitled to receive an annual performance fee calculated by reference to the increase in the net asset value (NAV) per share over the relevant accounting period. For these purposes

NAV was the aggregate of the consolidated non-current and current assets adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the property valuation policy less its consolidated liabilities (including non-controlling interest and payables related to management fees) provided that, in respect of the Group's first accounting reference period, the opening NAV was equal to the net proceeds of the initial sale of shares.

Where the NAV per share at the end of the relevant accounting period exceeds the highest NAV per share at the end of any previous accounting period by 10% or more but not more than 35%, the Manager was entitled to a performance fee in respect of such accounting period of 20% of the amount by which such excess exceeds 10%

Where the NAV per share at the end of the relevant accounting period exceeds the highest NAV per share at the end of any previous accounting period by 35% or more, the Manager was entitled to an additional performance fee in respect of such accounting period of 25% of the amount by which such excess exceeds 35%.

Revised Management Agreement

On 23 April 2010 the Board approved changes to the Management Agreement between the Manager and the Parent Company effective as at 31 December 2009 (Revised Management Agreement). The performance fee has two parts. One is based on NAV growth, and the second on share price growth. Therefore, prior to the Revised Management Agreement the Manager was entitled to an annual performance fee of 20% of the amount of such increase in NAV growth in excess of 10%, and under the Revised Management Agreement the Manager is entitled to 10% of the amount of such increase in NAV growth in excess of 10%. The other performance fee of 10% is calculated based on the amount by which the final share price growth exceeds 10% from the base share price set at GBP1.085 per share.

The next level of performance fee that was based on the growth of NAV by more than 35% was cancelled.

Payment of 30% of the performance fee will be made within 10 business days following the publication of the audited financial results for the relevant accounting period. The remaining balance will be satisfied by the issue of ordinary shares at a price equal to the average middle market closing price of ordinary shares over the last 20 business days in the accounting period in relation to which the performance fee is being paid. Additionally, the part of the performance fee payable in shares (70%) is now allocated based on the ratio of NAV and base share price, but not at the actual share price.

The management fee is paid semi-annually in arrears at a rate of 1.5 percent of management fee gross asset value (MFGAV).

Under the terms of the Revised Management Agreement, the MFGAV is the aggregate of the consolidated non-current and current assets adjusted to reflect the fair market value of its properties less its consolidated liabilities (excluding bank or third party indebtedness and the value of the management fee to be paid to the Manager in respect of the relevant accounting reference period).

Net Asset Value (NAV) is now defined as the consolidated non-current and current assets adjusted to reflect the fair market value of properties after adding back any dividends declared or paid in relation to such period and less the consolidated liabilities.

The total management fee for the year ended 31 December 2011 is USD 3,315 thousand (31 December 2010: USD 4,519 thousand). No performance fee is applicable based on the results of 2011.

19 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	29 November 2012	16 May 2012	
Exercise price	USD 2.00	USD 2.00	GBP 1.30	USD 2.00	
Share-based compensation (USD thousand) during 2010	10	-	-	-	10
Share-based compensation (USD thousand) during 2011	6	-	-	-	6

(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 years ended 31 December 2011 and 31 December 2010.

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 years ended 31 December are as follows:

(in thousands of USD)	**2011**	2010
Share options granted in 2007:	-	-
Share options (compensation expense)	**6**	10
Total share-based payments	**6**	10

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**

20 Administrative expenses

Administrative expenses for the years ended 31 December are as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Professional services	**530**	**336**	774	298
Advertising	**583**	**23**	421	18
Wages and salaries	**202**	**-**	254	-
Audit fees	**160**	**136**	161	121
Directors' fees	**125**	**125**	125	125
Bank charges	**42**	**10**	27	6
Insurance	**16**	**16**	18	18
Share-based compensation	**6**	**6**	10	10
Travel expenses	**6**	**6**	42	42
Other	**250**	**20**	420	19
Total administrative expenses	**1,920**	**678**	2,252	657

21 Net finance (costs) income

Net finance (cost) income for the years ended 31 December is as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Interest income on inter-Group loans	**-**	**17,150**	-	17,511
Interest income	**602**	**10**	1,426	3
Dividends	**-**	**569**	-	-
Impairment loss on loans receivable	**-**	**(116,591)**	-	-
Financial instruments (option) (loss) gain	**(2,637)**	**-**	200	-
Unrealised currency exchange losses	**(96)**	**(15)**	(19)	(6)
Net financial (costs) income	**(2,131)**	**(98,877)**	1,607	17,508

22 Contingencies

(a) Litigation

As at 31 December 2011 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. Additionally, taking into account the short term period of the lease of the land plot on which Hindale Ltd. is planning to construct the real estate, Hindale Ltd. may not be able to prolong the lease term at the expiry date of the land lease agreement should the construction works not start before May 2012. 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 ongoing 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. As at 31 December 2011 the fair value of the Group's effective ownership in the Avenue Shopping Mall project amounted to USD 1,624 thousand (31 December 2010: USD 3,716 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. A hearing date is not yet fixed.

As a result of the above events Arricano is no longer able to execute the Sky Mall call option and consequently does not control the Sky Mall project. Accordingly, the Sky Mall project has been deconsolidated in Arricano's financial statements and is accounted for as an associate from June 2011. For details on these legal proceedings refer to note 7.

(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 31 December 2011 outstanding commitments to finance construction of investment properties and other commitments amount to USD 7,913 thousand (31 December 2010: USD 17,913 thousand).

23 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based upon the net loss for the year ended 31 December 2011 attributable to the ordinary shareholders of the Parent Company of USD 73,970 thousand (2010: net profit of USD 2,365 thousand) and the weighted average number of ordinary shares outstanding calculated as follows:

	2011	2010
(number of shares weighted during the period outstanding)		
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)
Own shares buyback in 2011	**(185,951)**	-
Weighted average number of shares for the period	**117,530,564**	117,716,515

Diluted earnings per share

The calculation of diluted earnings per share is based on the net loss for the year ended 31 December 2011 attributable to ordinary shareholders of the Parent Company of USD 73,970 thousand (2010: net profit of USD 2,365 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

	31 December 2011	31 December 2010
(number of shares)		
Weighted average number of shares for the period (fully diluted)	**117,530,564**	117,716,515

Because during the years ended 31 December 2011 and 2010 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.

24 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 31 December 2011 the largest exposures relate to prepayments made under three land acquisition contracts totalling USD 67,100 thousand (31 December 2010: USD 124,094 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 31 December 2011, USD 1,049 thousand or 60.0% of total trade and other receivables are due from a single customer (31 December 2010: USD 841 thousand or 55.5%).

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 as at 31 December is as follows:

(in thousands of USD)	**Consolidated 2011**	**Parent company 2011**	Consolidated 2010	Parent company 2010
Loans receivable	**920**	**150,956**	2,456	258,353
Trade and other receivables	**1,291**	**333**	1,380	334

(in thousands of USD)	Consolidated 2011	Parent company 2011	Consolidated 2010	Parent company 2010
Cash and cash equivalents	**28,704**	**23,052**	44,915	23,736
	30,915	**174,341**	48,751	282,423

(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 31 December 2011:

		Contractual cash flows			
(in thousands of USD)	**Carrying amount**	**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**

The following are the contractual maturities of financial liabilities, including interest payments as of 31 December 2010:

		Contractual cash flows			
(in thousands of USD)	**Carrying amount**	**Total**	Within one year	2-5 years	More than 5 years
Finance lease liabilities (note 4)	3,273	24,495	501	2,004	21,990
Trade and other payables	3,870	3,870	3,870	-	-
	7,143	28,365	4,371	2,004	21,990

(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 favorable over the expected period until maturity.

As at 31 December 2011 and 2010 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 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 as at 31 December is as follows based on notional amounts:

		2011			2010	
(in thousands of USD)	**EUR**	**GBP**	**UAH**	EUR	GBP	UAH
Current assets						
Cash and cash equivalent	**9**	**17**	**276**	13	2	401
Trade and other receivables	**10**	**-**	**1,470**	9	-	1,059
Non-current liabilities						
Finance lease liability	**-**	**-**	**(3,098)**	-	-	(3,272)
Current liabilities						
Trade and other payables	**(34)**	**(9)**	**(709)**	(67)	(11)	-
Current portion of finance lease liability	**-**	**-**	**(31)**	-	-	(1)
Net (short) long position	**(15)**	**8**	**(2,092)**	(45)	(9)	(1,813)

The foreign exchange rates of the USD at 31 December are as follows:

Currency	**2011**	2010
EUR	**1.2889**	1.3372
GBP	**1.5417**	1.5545
UAH	**0.1252**	0.1265

As at 31 December 2011 a 10 percent weakening of the US dollar against the UAH would have increased post-tax loss and increased equity by USD 161 thousand (2010: USD 136 thousand).

As at 31 December 2011 a 10 percent weakening of the US dollar against the GBP would have decreased post-tax loss and increased equity by USD 1 thousand (2010: decreased by USD 1 thousand).

As at 31 December 2011 a 10 percent weakening of the US dollar against the EUR would have increased post-tax loss and decreased equity by USD 1 thousand (2010: USD 3 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 31 December 2011 and 31 December 2010 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.

25 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 years ended 31 December is as follows:

(in thousands of USD)	**2011**	2010
Directors' fees	**125**	125
Share-based payment expense (options granted)	**6**	10
Reimbursement of travel expense	**2**	-
Total management remuneration	**133**	135

(ii) Key management personnel and director transactions

The Directors' own shares in the Parent Company as at 31 December are as follows:

	2011		2010	
	Number of shares	**Ownership, %**	Number of shares	Ownership, %
Aloysius Johannes Van der Heijden	**200,000**	**0.18**	200,000	0.17
Tomas Fiala	**9,804,069**	**8.96**	8,529,816	7.25
	10,004,069	**9.14**	8,729,916	7.42

Boris Erenburg, one of the Directors as at 31 December 2011, is also an executive of Spinnaker Capital Group, which acquired 14,874,400 shares (13.60%) of the Parent Company during the first and second share issues. Mr. Boris Erenburg has resigned as a Director on 20 January 2012.

Mr. Rafaël Biosse Duplan, a Director until 24 January 2011, is a partner at emerging markets investment specialist, Finisterre Capital LLP. Finisterre Capital LLP is involved in managing total return funds, including Finisterre Recovery Fund which owned 9,900,000 (9.05%) shares and Finisterre Global Opportunity Master Fund which owned 4,369,299 (4.00%) shares of Dragon – Ukrainian Properties and Development Plc. On 25 November 2011 the Group was notified that Finisterre Recovery Fund and Finisterre Global Opportunity Master Fund have sold all shares they held in the Parent Company.

Mr.Tomas Fiala, one of the Group's directors, is the principal shareholder and managing director of Dragon Capital Group which acquired 6,831,500 shares (6.25%) of the Group during the first and second share issues. Also Tomas Fiala is a director in Dragon Capital Partners which has received 1,698,416 (1.55%) 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.

In May 2011 Dragon Capital Group increased its shareholding from 8,529,916 shares to 9,804,069 ordinary shares with par value of 1 pence each through the acquisition of 1,274,153 shares at average price of 56 pence per share, representing an increase in its shareholding from 7.25% to 8.96% of the issued share capital of the Parent Company.

Mr. Christopher Watson, head of research in Finisterre Capital LLP was appointed as a Director on 24 January 2011 and served in this capacity until 15 July 2011 when he resigned due to inability to devote enough time to Group's matters. Mr. Watson did not own any shares in the Parent Company during the term of his service.

On 6 December 2011 Mr. Rory Macnamara was appointed to the Board as a Director. Mr. Rory Macnamara does not own any shares in the Parent Company as at the date of these financial statements.

(b) Transactions with other related parties

Expenses incurred and outstanding balances of transactions for the years ended 31 December are as follows:

(in thousands of USD)	**2011** Transactions	**2011** Balance outstanding	2010 Transactions	2010 Balance outstanding
Disposal of subsidiary	-	-	-	277
Management fee for project management to be paid to Dragon Development	**198**	-	170	33
Expenses to be reimbursed to Manager	-	-	50	50
	198	-	220	360

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

26 Events subsequent to the reporting date

On 20 January 2012 the Board of Directors passed a written resolution by which Mr. Boris Erenburg resigned as a Director due to his inability to devote enough time to the Group's matters. On 14 February 2012, Mr. Nikolay Artemenko was appointed a Director to the Board of the Company.