



Dragon

Ukrainian Properties & Development plc.

The Sky's the limit

Interim Report 2008

“The company’s performance has been solid. We have built a well balanced portfolio comprising of development projects and investments in land-banking with prospects of significant investment returns.”

Aloysius Johannes van der Heijden
Non executive Chairman

\$208m

raised at IPO

Launched onto AIM in June 2007 with a \$208 million placing. DUPD is the largest Ukrainian real estate IPO to date. Our investor base includes some of the worlds leading investment banks and other prominent institutional investors

\$100m

secondary private placing

Raised an additional \$100 million in November 2007, via a secondary private placement

\$218m

committed since IPO, June 07

Across seven investments

\$387m

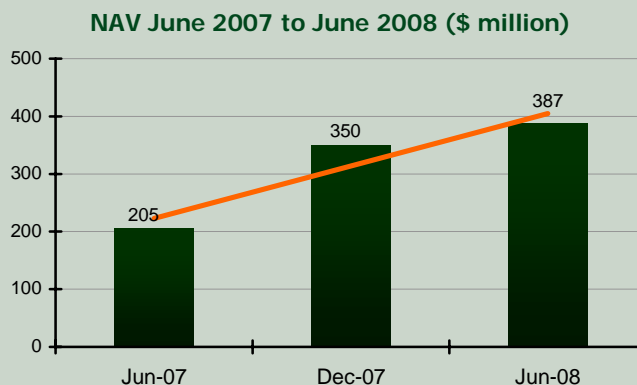
NAV as of 30 June 2008

Based on the results of the valuation of only four of seven projects in the portfolio

\$33m

net profit

Realized during 1H08



About DUPD

Dragon-Ukrainian Properties & Development plc (DUPD) is a real estate investment company, listed on the Alternative Investment Market (AIM) of the London Stock Exchange, focusing on the development of high-quality commercial and residential properties in Ukraine.

The investment objective of the company is to provide shareholders with strong capital growth by taking on existing opportunities in the retail, office and residential sectors, oftentimes in partnership with leading developers.

DUPD utilizes the property investment and development expertise of Dragon Capital Partners Limited ('DCP' or 'Manager') and, where a joint venture arrangement is appropriate, local Ukrainian partners.

DCP has been appointed to provide advisory, investment management and monitoring services to DUPD in respect of property development opportunities in Ukraine. DCP is a 100% subsidiary of Dragon Asset Management, the asset management arm of Dragon Capital, with funds under management exceeding \$1 billion across a wide spectrum of investment products. Dragon Capital is 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. Financial magazine Euromoney has recognized Dragon Capital as the best Equity House in Ukraine in 2002 and 2004–2007.



Financially strong...

With approx. \$160 million of cash on its balance sheet and no leverage, DUPD is well positioned to continue its development effort, notwithstanding the current trends in today's challenging financial environment.

Ability to source off-market investment opportunities...

During first 13 months of operations, The Manager has constantly proven its ability to source off-market investment opportunities through its extensive experience in the region and wide network of local contacts.

A balanced portfolio of lucrative investment projects...

Our project portfolio encompasses all main segments of DUPD investment strategy, including office, retail and residential projects. All of the projects are located in key areas of Kyiv and other large regional centers of Ukraine

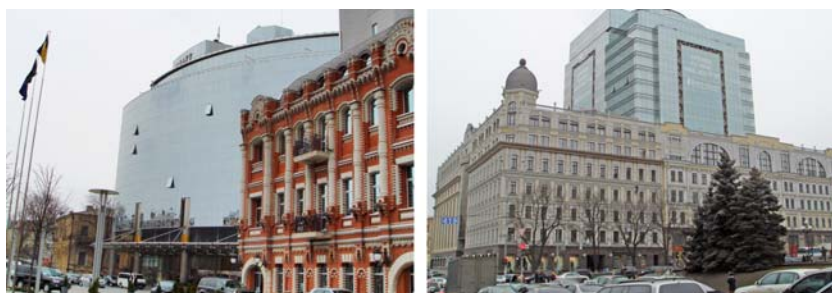
Large landbank...

DUPD is in the process of completing acquisition of over 600 hectares of land in close proximity to the borders of Kyiv suitable for development of a large-scale commercial and residential projects.

Our Strategy

Our primary focus is on the development of new, and the re-development of existing properties in the retail and office sectors. In the residential sector, we focus mainly on development of upscale cottage communities in close proximity to the borders of Kyiv, and to a lesser extent on conventional residential developments within the Kiev metropolitan area. We also favor investments in land-banking, which entail acquisition of substantial land fields with potential for development of large-scale residential projects.

Our investment and development activities focus on Kyiv and the Kyiv region and on major regional centers in Ukraine with significant population. Investment opportunities in smaller, yet important cities in Ukraine may be exploited by the Company under the right circumstances. We assume a proactive approach to every investment project in our portfolio. Our in-depth local knowledge and our ability to promptly re-zone land and quickly obtain project and construction permits gives us an invaluable insight into choosing the right projects and ensuring successful completion and high investment returns.



Ukrainian Economy

The Ukrainian economy remained on a healthy growth track in 1H08, demonstrating resilience to increased energy costs, unstable politics and monetary tightening adopted by the central bank in 2Q08 to address inflationary pressures. Driven by robust foreign and domestic demand, real GDP advanced by 6.3% y-o-y in 1H08.

Provisional data for 2Q08 show Ukraine's trade balance improved notably, reducing the current account (C/A) deficit to \$3.0bn from \$3.6bn recorded in 1Q08. Merchandise exports all but caught up with imports in terms of growth in May-June, led by metals, chemicals and machinery. It is expected that the C/A deficit will narrow further in 3Q08 thanks to grain exports but will deteriorate again in 4Q08 on a seasonal rise in energy imports, bringing the full-year deficit to an estimated \$12.6bn (6.4% of GDP), yet, inflows of FDI and other capital (long-term borrowings) remain fairly strong, exceeding the C/A gap and keeping the hryvnia under appreciation pressure. Net FDI surged to \$5.1bn in 1H08, up 40% y-o-y, driven by the banking sector (63% of total inflows over the period), and should increase by another \$5.5bn in 2H08. Medium- and long-term borrowings rose by 27% y-o-y in 1H08, to \$6.7bn on the net basis, as commercial banks and corporates started to borrow more actively.

As part of its anti-inflationary campaign, the central bank reduced F/X interventions, allowing the hryvnia market rate to effectively appreciate by 10% YTD, and announced a gradual shift to a more flexible exchange rate regime, approving a UAH 4.66-5.04:USD band for the official exchange rate for 2H08. Stronger hryvnia, tighter monetary policy and plentiful agricultural harvest are set to moderate consumer inflation further after it entered a downward track in June and most analysts forecast inflation to settle at 19% y-o-y by year-end

Fast Facts

DUPD was formed to invest in the development of high-quality commercial and residential properties in Ukraine and to recognize significant returns on such investments.

The Company completed its IPO on AIM, in June 2007, raising \$208 million in gross proceeds. In November 2007, after having deployed most of its IPO capital on committed investments, DUPD raised an additional \$100 million in a secondary private placing.

I am happy to present the results of Dragon – Ukrainian Properties & Development plc for the first six months of 2008, a year dedicated to the development of our projects and continued selective investment activity.

To date, we have consolidated, what we believe is, a well balanced portfolio of investment projects, placed in one of the least saturated and most lucrative development markets in Europe. Unlike in western countries, real estate values in Ukraine are not suffering from financial liquidity crisis as capitalization rates remain high and unlikely to increase, while rental rates are expected to stay stable or grow in the coming years. With demand continuing to rise rapidly, and construction volumes remaining insignificant, the market's landscape remains virtually unchanged promising high profitability for well-located, quality developments, in commercial as well as residential sectors.

Having committed \$199.5 million across five real estate developments and two land banking projects in 2007, the Company, during the first half of 2008, has acquired "Vita Poshtova" project, and increased its shareholding in some of its existing projects (in Obolon project - to 98.2%, in Komarova project – to 50%, and in PFRE project - to 58.2%), while demonstrated solid development progress on each project. We are happy to see two of our development projects under construction, with the rest planned for entering the construction stage in 2008-2009. In the second half of 2008, we aim to fully commit the available funds, with focus on the retail and office sectors, and we are currently reviewing several investment propositions.

Overall, during the first half of 2008, the Company has committed an additional \$16.6 million on existing projects, which brought the total commitments to \$217.7 million, while \$103 million remain uncommitted. During the period, DUPD has also invested \$20 million into the projects, bringing the total invested funds to \$155.1 million. The resulting NAV uplift was \$37.4 million, raising NAV to \$387.4 million, as of 30 June, 2008.

In the development course, we remain committed to follow the proven model of forming partnerships with experienced local developers, which coupled with the due control of our locally placed management team allows us to develop quality projects on time while minimizing country-specific risks.

Aloysius Johannes van der Heijden,

Non-Executive Chairman of DUPD

The pace of our investment activity has been stellar, bringing total commitments to **\$217.7 million** out of **\$308 million** in gross proceeds raised at IPO and secondary placing.

Ukraine is the only large country in the CEE region, where the real estate market remains on the early stages of development, offering lucrative investment opportunities to proactive local developers. Dragon-Ukrainian Properties & Development was created in order to allow its shareholders access to investment opportunities into development of quality retail, office and residential space in the Ukrainian market, managed by a highly experienced and local management team, Dragon Capital Partners.

DUPD's investment portfolio as of June 30, 2008, consists of seven projects:

- two land banking projects near Kyiv;
- two retail projects (Henryland project - six retail schemes in the regions of Ukraine and Komarova project – a shopping mall in Kyiv);
- two upscale cottage communities near Kyiv (Vita Poshtova and Pine Forest River Side Estates);
- one mixed-use project in Kyiv (Obolon project).

On the land-banking activity, the Company has already accumulated 75% of the targeted landholdings under the two land-bank projects located near Kyiv. We are very glad to see that we have managed to stay within the initial budget despite the significantly growing land prices in the area, which has allowed us to increase the upside potential for our shareholders. The progress to date allows us to expect the delivery of at least one of the projects during the second half of 2008.

On the development side, our projects are also progressing according to plan. On Komarova project, we've secured a lease of 5,000 sqm to a leading hypermarket chain for \$28/sqm (triple net), which exceeded by 40% our initial expectations, reflecting the general trend of growing rents in the retail property market in Ukraine. Moving as planned, DUPD has increased its stake in Komarova project from 15% to 50% having financed a staged share capital increase. On Henryland project, the second shopping centre is under construction in Kremenchuk (16,000 sqm), with two more - in Mykolaiv and Odesa - commencing construction in September and October 2008 respectively, and the rest two planned for 2009.

Having secured all utilities to the site, we've commenced construction of the first 6 villas on Pine Forest River Side Estates, with the beginning of the marketing campaign of the project planned for the autumn 2008. We have acquired one more cottage community project in February 2008, in the opposite direction from Kyiv, which is a project for 170 homes, located in Vita Poshtova, 11 km to the south from the city. Since then, an approach road and a gas pipe to the site were constructed, and modification of the concept design of the cottage community started by an experienced architectural bureau. Construction of the first line of show-case homes is planned for the autumn 2008.

We've also completed the acquisition of Obolon project, having consolidated the remaining available stakes of minority shareholders (21.4% in total) at the budgeted cost, bringing DUPD's total shareholding to 98.2%. Working in parallel, we have developed the architectural concept of the new building, and are now starting the design development of the project. The Company is now in advanced negotiations with an experienced local developer for the joint realization of the project.

Having committed approx. \$218 million to the portfolio, we stay focused on commercial estate, and aim to deploy the remaining funds into projects within the retail and office sectors, which we expect to accomplish during the second half of 2008. Currently, we are considering a number of attractive projects in these segments (presently, under due-diligence).

As of today, DUPD has committed approx. 71% of the capital raised by the IPO and secondary offering during 2007, with \$103 million of cash available for further investments. DUPD's investment strategy is firm. It only considers investment opportunities for as long as remaining funds are adequate to fully fund its commitments, under existing developments and thus, allow for smooth financial management of all projects, notwithstanding the currently challenging financial environment. Consequently, DUPD is enjoying a solid cash flow position with an un-leveraged balance sheet which gives it a serious competitive advantage amongst its rivals, active in the Ukrainian real estate market.

Henryland Group Limited

- ✓ Development of 6 retail shopping centers with total area of over 89,000 sq.m
- ✓ Project sponsored by East Capital and Dragon Capital
- ✓ First shopping center opened in Lutsk in December, 2007
- ✓ Second shopping center to be opened in Kremenchuk in December, 2008
- ✓ Two more shopping centers in Odesa and Mykolaiv under development
- ✓ Land plot for fifth shopping center in Vinnytsia secured
- ✓ Anchor tenant secured for all locations

Pine Forest Riverside Estates

- ✓ Development of an elite gated community for 65 homes in prime location in Kyiv suburb
- ✓ Unique natural landscape providing for combination of pine trees with direct riverfront
- ✓ Masterplan of the project approved, all home designs selected
- ✓ 2 main subcontractors for home construction selected
- ✓ First stage of 6 homes currently under construction
- ✓ Technical conditions for connection of utilities received, planning of intra-site utilities underway
- ✓ DUPD's shareholding increased from 50.3% to 58.2%

Komarova Shopping Centre

- ✓ Development of a 44,000 sqm shopping centre in Kyiv
- ✓ DUPD's shareholding increased as planned from 15% to 50.01%
- ✓ Strong retail location on a busy city thoroughfare, Komarova avenue
- ✓ Concept Design development accomplished, Detailed Design underway
- ✓ First lease of a 5,000 sqm hypermarket unit secured by Colliers International for \$28/sqm, 40% above the lease plan

Mixed-use on Obolon

- ✓ Development of a 48,000 sqm office, residential and retail complex in Kyiv
- ✓ DUPD's shareholding increased as planned from 75.2% to 98.2% at a budgeted cost.
- ✓ Key location near a metro exit, on the central square of Obolon, a prestigious residential district in the city
- ✓ Architectural concept developed, and design development started

Vita Poshtova

- ✓ Development of an upscale gated community for 170 homes on a 31.9 ha land plot, in close proximity to Kyiv
- ✓ Attractive hilly land plot in a picturesque location surrounded by woods and two lakes
- ✓ Master plan of the project approved, and is being optimized. All home designs selected
- ✓ Gas pipe line and approach road constructed and commissioned
- ✓ Construction of show-case homes planned for autumn 2008

Land banking

- ✓ Acquisition of up to 675 hectares of land
- ✓ Location in close proximity to the city border
- ✓ 75% of consolidation process completed

<i>(in thousands of USD)</i>	<i>Note</i>	30 June 2008	31 December 2007
Assets			
Non-current assets			
Investment properties	8	125,196	83,991
Prepayments for land	9	101,000	96,000
Investments in associates	6, 7	13,431	16,209
Property and equipment		28	28
		<hr/>	<hr/>
Total non-current assets		239,655	196,228
		<hr/>	<hr/>
Current assets			
Inventories	10	218	168
Trade and other receivables	11	502	4,839
Cash and cash equivalents	12	160,126	178,350
		<hr/>	<hr/>
Total current assets		160,846	183,357
		<hr/>	<hr/>
Total assets		400,501	379,585
		<hr/> <hr/>	<hr/> <hr/>

The Consolidated Balance Sheet is to be read in conjunction with the notes to and forming part of the financial statements.

	<i>Note</i>	30 June 2008	31 December 2007
<i>(in thousands of USD)</i>			
Equity and Liabilities			
Equity	<i>13</i>		
Share capital		2,847	2,813
Share premium		298,385	293,994
Retained earnings		86,439	53,139
Translation difference reserve		(227)	
		<hr/>	<hr/>
Total equity attributable to equity holders of the Company		387,444	349,946
Minority interests		1,176	16,216
		<hr/>	<hr/>
Total equity		388,620	366,162
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities	<i>14</i>	6,190	3,246
		<hr/>	<hr/>
Total non-current liabilities		6,190	3,246
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>15</i>	5,635	10,163
Income tax payable		56	14
		<hr/>	<hr/>
Total current liabilities		5,691	10,177
		<hr/>	<hr/>
Total liabilities		11,881	13,423
		<hr/>	<hr/>
Total equity and liabilities		400,501	379,585
		<hr/>	<hr/>

This Consolidated Balance sheet was approved by management on 21 July 2008 and was signed on its behalf by:

Chairman of the board

Aloysius Johannes van der Heijden

The Consolidated Balance Sheet is to be read in conjunction with the notes to and forming part of the financial statements.

Non-executive director

Fredrik Svinhufvud

	<i>Note</i>	For the six months ended 30 June 2008	For the six months ended 31 August 2007 ¹
<i>(in thousands of USD)</i>			
Rental income		392	-
Fair value gains on revaluation of investment properties	8	12,634	-
Management and performance fees	16	(2,928)	(1,553)
Administrative expenses	17	(745)	(215)
Results from operating activities		9,353	(1,768)
Gain on acquisition of subsidiary and joint venture	5, 7	20,136	-
Net financial income	18	6,830	2,172
Share of the profit of associates	6	165	-
Other income / (expense)		(70)	-
Profit (loss) before income tax		36,414	404
Income tax expense	14	(2,985)	-
Profit (loss) for the period		33,429	404
Attributable to:			
Equity holders of the Company		33,286	400
Minority interests		143	(4)
Profit (loss) for the period		33,429	404
Earnings (loss) per share	20		
Basic earnings (loss) per share (in USD)		0.234	0.004
Diluted earnings (loss) per share (in USD)		0.233	0.004

The Directors consider that all results derive from continuing activities.

The Consolidated Statement of Operations is to be read in conjunction with the notes to and forming part of the financial statements.

¹ AIM rule No 18 requires the Company to prepare a half-yearly report in respect of the six month period from the end of the financial period for which financial information has been disclosed in its admission document. DUPD has published financial information in its Admission Document as per 28 February 2007.

	Note	For the six months ended 30 June 2008	For the six months ended 31 August 2007
<i>(in thousands of USD)</i>			
Cash flow from operating activities			
Profit (loss) before income tax		36,414	(1,768)
<i>Adjustments for:</i>			
Gain on acquisition of subsidiary and joint venture	5, 7	(20,136)	-
Fair value gains on revaluation of investment properties	8	(12,634)	-
Share of the profit of associates		(165)	-
Net financial income		(6,830)	-
Foreign currency translation losses		85	-
Operating cash flow before changes in working capital		(3,266)	(1,768)
(Increase) / decrease in inventories		(50)	
(Increase) / decrease in trade and other receivables		4,438	(51)
Increase / (decrease) in trade and other payables		(2,611)	1,638
Share based payments		14	
Cash flows used in operating activities		(1,475)	(181)
Cash flow from investing activities			
Interest received		6,518	1,794
Acquisition of investment property	8	(11,857)	-
Prepayments for land	9	(5,000)	(56,254)
Acquisition of subsidiary and joint venture, net of cash acquired	5, 7	(4,410)	-
Investments in associates	6	(2,000)	(8,000)
Cash flows used in investing activities		(16,749)	(62,460)
Cash flow from financing activities			
Proceeds from the issue of share capital		-	205,061
Cash flows from financing activities		-	205,061
Net increase / (decrease) in cash and cash equivalents		(18,224)	142,420
Cash and cash equivalents at the beginning of the period		178,350	-
Cash and cash equivalents at the end of the period	10	160,126	142,420

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial statements.

	Attributable to equity holders of the Company				Total	Minority interests	Total
	Share capital	Share premium	Retained earnings	Translation difference reserve			
<i>(In thousands of USD)</i>							
Balance at 23 February 2007	-	-	-	-	-	-	-
Profit for the period from 23 February to 31 December 2007	-	-	46,039	-	46,039	(153)	45,886
Share based compensation	-	-	18	-	18	-	18
Total recognized income and expenses	-	-	46,057	-	46,057	(153)	45,904
Share issue	2,813	305,187	-	-	308,000	-	308,000
Share issue's expense	-	(4,111)	-	-	(4,111)	-	(4,111)
Share based payments	-	(7,082)	7,082	-	-	-	-
Acquisition of subsidiary and joint venture	-	-	-	-	-	16,369	16,369
Balance at 31 December 2007	2,813	293,994	53,139	-	349,946	16,216	366,162
Profit for the period from 1 January to 30 June 2008	-	-	33,286	-	33,286	143	33,429
Total recognized income and expenses	-	-	33,286	-	33,286	143	33,429
Share issue	34	4,398	-	-	4,432	-	4,432
Own shares issue expenses	-	(7)	-	-	(7)	-	(7)
Share based payments	-	-	14	-	14	-	14
Acquisition of subsidiary and joint venture	-	-	-	-	-	(15,183)	(15,183)
Translation on difference reserve	-	-	-	(227)	(227)	-	(227)
Balance at 30 June 2008	2,847	298,385	86,439	(227)	387,444	1,176	388,620

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements.

CFO Statement

Dragon Ukrainian Properties and Development plc is delighted to announce its financial results for the first half of 2008. During first half of its second year of trading, the Company has been able to maintain its ability to efficiently pursue off-market opportunities in the Ukrainian real estate market. As of June 30, 2008 the Company had committed USD217.7M and invested USD155.1M out of approx. USD 305M net equity funds raised during IPO and secondary placing.

Investments/Commitments

Project	Sector	Commitment, million USD	Investment, million USD
Land banking	Land consolidation	140.75	101.0
Obolon	Mixed-use	16.6	16.5
Komarova	Retail	10.75	6.5
Vita Poshtova	Residential	27.00	11.27
PFRE	Residential	10.6	9.8
Henryland	Retail	12.0	10.0
Total		217.7	155.1

Consistent with the Company's valuation policy Knight Frank issued a valuation report as of June 30, 2008 on the following projects:

- mixed-use in Obolon
- Komarova shopping mall
- Pine Forest Riverside Estates (PFRE) residential development
- Vita Poshtova residential development

It should be noted that commitments subject to revaluation were USD 63M, which constitutes only 29% of total commitments. The valuation was performed by a certified value on the basis of Market Value. The fair market value of investments subject to revaluation as of 30 June 2008 was reported by Knight Frank at USD 127M versus USD 42.9M of invested funds, which represents the uplift of USD 84.1 M or approx. 3x multiple.

NAV uplift of 1H 2008 in the amount of USD 32.7M is mainly attributable to increased shareholding of DUPD in Komarova, Obolon and PFRE projects as well as appraisal of Vita Poshtova residential project, which was not subject to revaluation as of Dec 31, 2007.

Shareholding in projects

Project	DUPD shareholding, Dec 31, 2007	DUPD shareholding, Jun 30, 2008
Obolon	75.2%	98.2%
Komarova	15.0%	50.01%
Vita Poshtova	-	79.3%
PFRE	50.3%	58.2%
Henryland	38.0%	38.0%

Based on valuation of Knight Frank, the company's NAV amounted to USD 386.2M, which translates to NAV/ordinary share of USD 2.71, representing an uplift of 10% and 9% respectively over the reported NAV and NAV/ordinary issued share as of December 31, 2007.

DUPD expects a significant NAV uplift over the coming months, based on:

- consolidation of 100% of Vita Poshtova project;
- revaluation of the 2nd shopping center planned for opening in December 2009 under Henryland project;
- progress with planning and permitting process on Obolon and Komarova;
- start of residential sales in PFRE;
- bringing a significant part of its land banking portfolio into the balance sheet;
- closing of additional investments from the pipeline

Financial Overview

DUPD's Total assets as of June 30, 2008 are reported at USD 400.5M with Non-current assets of USD 239.7M and Current assets of USD 160.8M. Decrease in Investments in associates as compared to December 31, 2007 is related to increase in shareholding in Komarova project to over 50% and appropriate reclassification of its fair value to Investment Property line. Current assets are made up of cash balance of USD 160M and USD 0.7M of inventories and receivables related to projects under development stage.

Total liabilities of USD 11.9M constitute of Deferred tax liabilities of USD 6.2M relating to Vita Poshtova and PFRE residential projects and Trade and other payables of USD 5.7M relating to project payables on Komarova and management fees due.

Net income for 1H 2008 reached USD 33.4M, driven by gains on revaluation of investment property of USD 9.5M related to Vita Poshtova project and increased shareholding in PFRE as well as USD 20.9M gain on

acquisition of additional shareholding in Obolon and Komarova. Interest income in the amount of USD 6.5M was more than enough to cover on-going expenses of the Company in the amount of USD 3.7M. Another major expense item relates to income tax of USD 2.99M related to revaluation of Vita Poshtova residential project and booked as DITL in the Company's balance sheet.

Fully diluted earning per share for the period amount to USD 0.233 per share.

Finance and Capital Structure

As per initial commitment to the shareholders the Company continues to pursue existing projects on a non-leveraged basis. Leverage will be considered on a project by project basis once such projects reach an advanced development stage. Residential projects of the Company will also be financed through internally generated cash flow based on proceeds from pre-sales.

Cash Management

Cash is held on deposits with RBSI and 3 Ukrainian banks currently generating approximately 8.3% average annualized return.

Notes to Financial Statement

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 30 June 2008 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint venture.

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

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

These Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for investment property, which is carried at fair value.

These Consolidated Financial Statements are presented in the thousands of US dollars (USD).

(c) Functional and presentation currency

Management believes that the most appropriate functional and presentation currency for 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.

(d) Use of judgments, estimates and assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 recognized in the financial statements are included in the following notes:

- note 8 - valuation of investment property

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated statements are described below.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company 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 that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated 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 into line with those used by other members of the Group.

The result of subsidiaries acquired during the year is included in the consolidated statement of operations from the effective date of acquisition.

Consolidated subsidiaries, all of which are involved in construction activities, include the following:

Name	Country of incorporation	% of ownership	
		2008	2007
Bi Dolyna Development LTD	Ukraine	100%	100%
Landshere LTD	Cyprus	95%	95%
Landzone LTD	Cyprus	100%	100%
Linkdell LTD	Cyprus	100%	100%
Linkrose LTD	Cyprus	100%	100%
Mountcrest LTD	Cyprus	100%	100%
EF Nova Oselya LTD	Ukraine	100%	100%
OJSC "Dom byta "Obolon"	Ukraine	98%	75%
Riverscope LTD	Cyprus	95%	95%
Startide LTD	Cyprus	100%	100%
VP Development LTD	Ukraine	99%	-
J Komfort Neruhomist LTD	Ukraine	99%	-
Hindale LTD	Cyprus	50%	15%
Promtek LTD	Ukraine	50%	15%

(ii) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses 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 nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economy activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entities is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition (see below).

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized 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.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

(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) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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 this purpose.

(d) Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity.

(e) Investment properties

Investment properties are those that are held either to earn rental income or for capital appreciation or for both. Investment properties principally comprise freehold land, leasehold land and investment properties held for a future redevelopment. 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 costs. Investment properties are derecognized 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 recognized as gain or loss in the statement of operations.

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 the consolidated statement of operations 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.

It is the Group's policy that an external, independent valuation company, having an appropriate recognized 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.

In general terms, there are three valuation approaches. The income approach relates the value of an asset to the present value of the asset's future expected cash flows. This approach is applied in two methods – income capitalization and discounted cash flow (DCF) method.

The market comparables approach estimates the value of an asset by a comparison of prices for comparable assets.

The cost approach relates the value of an asset to the cost of the asset's new construction. There can be significant differences in fair values depending upon which approach is used.

Management believes that there is no active market in Ukraine for land because there are few transactions and each transaction tends to be unique and subject to significant negotiations. Therefore, management has chosen to use a valuation model to estimate fair value.

After an analysis of each of the methods, discussion with the independent appraiser, and considering the types of investment properties owned by the Group and their intended development, management 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.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and 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 labor, 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 capitalized 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, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized 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 costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

(g) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(h) Inventories

Inventories are measured at the lower of cost and net realizable 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.

(i) Impairment**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of operations.

(ii) Non-financial assets

The carrying amounts of the 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, recoverable amount is estimated at each reporting date.

An impairment loss is recognized 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 recognized in profit or loss. Impairment losses recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

(j) Share based payments

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the

options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

For equity settled share-based payment transaction other than transactions with employees the Group measures the goods or services received at the fair value of goods and services, unless that fair value cannot be estimated reliably. If this is 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 recognized 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.

(l) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, and foreign currency gains. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions. All borrowing costs are recognized in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognized as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income 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 recognized using the balance sheet method, providing for 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 recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. 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.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. 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 realized.

For presentation purposes, deferred taxes related to the revaluation of investment properties are netted against the carrying amount of investment properties.

(n) 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 by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise warrants and share options.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The primary format for segment reporting is based on business segments. The definition of those segments corresponds to the industry accepted definitions used in the real estate business, i.e., office real estate, retail real estate, and residential real estate.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 30 June 2008, and have not been applied in preparing these consolidated financial statements. Management plans to adopt these pronouncements when they become effective, and has not yet analyzed the likely impact of these new standards on its consolidated financial statements.

IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the 2009 consolidated financial statements, requires the disclosure of segment information based on the internal reports regularly reviewed by the Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.

International Financial Reporting Standard IAS 1 *Presentation of Financial Statements* (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

4 Segment Reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets and expenses. Statement of operations information by business segment for the six month end 30 June, 2008 and 31 August 2007 is as follows:

	Offices		Retail		Residential		Mixed use		Not allocated		Total	
<i>(in thousands of USD)</i>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Valuation gains on investment property	861	-	-	-	11,773	-	-	-	-	-	12,634	-
Management and performance fees	-793	-508	-424	-125	-513	-181	-1,198	-740	-	-	-2,928	-1,553
Administrative expenses	-301	-	-6	-27	-88	-188	-	-	-350	-	-745	-215
Rent income	392	-	-	-	-	-	-	-	-	-	392	-
Results from operating activities	<u>159</u>	<u>-508</u>	<u>-430</u>	<u>-152</u>	<u>11,172</u>	<u>-369</u>	<u>-1,198</u>	<u>-740</u>	<u>-350</u>	<u>0</u>	<u>9,353</u>	<u>-1,768</u>
Gain on acquisition of subsidiary and joint venture	11,728	-	8,408	-	-	-	-	-	-	-	20,136	-
Financial income	-2	-	-1	-	318	-	-	-	6,515	2,172	6,830	2,172
Share of profit of associates	-	-	165	-	-	-	-	-	-	-	165	-
Other losses	-70	-	-	-	-	-	-	-	-	-	-70	-
Profit before income tax	<u>11,815</u>	<u>-507</u>	<u>8,142</u>	<u>-152</u>	<u>11,490</u>	<u>-369</u>	<u>-1,198</u>	<u>-740</u>	<u>6,165</u>	<u>2,172</u>	<u>36,414</u>	<u>404</u>
Income tax expense	-16	-	-	-	-2,957	-	-	-	-12	-	-2,985	-
Segment results	<u>11,799</u>	<u>-507</u>	<u>8,142</u>	<u>-152</u>	<u>8,533</u>	<u>-369</u>	<u>-1,198</u>	<u>-740</u>	<u>6,153</u>	<u>2,172</u>	<u>33,429</u>	<u>404</u>

Assets and liabilities by business segments as at 30 June 2008 and as at 31 December, 2007 are as follows:

	Offices		Retail		Residential		Mixed use		Not allocated		Total	
<i>(in thousands of USD)</i>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Segment assets	66,834	65,943	22,358	-	43,252	23,563	101,000	96,000	-	-	233,444	185,506
Investment in associates	-	-	13,431	16,209	-	-	-	-	-	-	13,431	16,209
Not allocated assets	-	-	-	-	-	-	-	-	153,626	177,870	153,626	177,870
Total assets	<u>66,834</u>	<u>65,943</u>	<u>35,789</u>	<u>16,209</u>	<u>43,252</u>	<u>23,563</u>	<u>101,000</u>	<u>96,000</u>	<u>153,626</u>	<u>177,870</u>	<u>400,501</u>	<u>379,585</u>
Segment liabilities	877	3,317	2,936	361	8,002	8,530	-	-	-	-	11,815	12,208
Not allocated liabilities	-	-	-	-	-	-	-	-	66	1,215	66	1,215
Total liabilities	<u>877</u>	<u>3,317</u>	<u>2,936</u>	<u>361</u>	<u>8,002</u>	<u>8,530</u>	<u>=</u>	<u>=</u>	<u>66</u>	<u>1,215</u>	<u>11,881</u>	<u>13,423</u>

5 Acquisition of subsidiary

During 2008 the Group increased its stake in the Obolon project from 75.15% to 98.2% via acquisition of additional shares in the amount of USD 3,455,400, which was settled in cash.

The net assets of the acquired subsidiary were as follows as of the date of acquisition:

	Recognised fair values on acquisition of Obolon
<i>(in thousands of USD)</i>	
Non-current assets	
Property, plant and equipment	28
Investment Property	65,794
Previously recognized fair value gain on investments in associate	-
Current assets	
Inventories	27
Trade and other receivables	18
Cash and cash equivalents	59
Non-current liabilities	
Current liabilities	
Trade and other payables	(57)
Net identifiable assets and liabilities	65,869
Acquired Group's share in the net identifiable assets and liabilities	15,183
Gain on acquisition	11,728
Consideration paid	3,455
Consideration to be paid during 2008	-
Cash acquired	-
Net cash outflow	3,455

The gain on acquisition of the Obolon project results from the underdeveloped market in Ukraine relating to business combinations of this type. This business combination is a result of the acquisition of small minority stakes from owners who were awarded their ownership interests as part of the privatization process. Their ability to develop their ownership interest is limited, and therefore, they are willing to sell their shares at undervalued prices.

6 Investments in associates

The Group has the following investments in associates as at 30 June 2008 and 31 December 2007:

Name	Country	Ownership/Voting	
		2008	2007
Henryland Group Ltd.	British Virgin Islands	38%	38%
Hindale Ltd.	Cyprus	-	15%

During 2008 the Group increased its investment in Henryland Group Ltd (Henryland) from USD 8,000,000 to USD 10,000,000 and recognized a gain from associate in the amount of USD 165,000. Henryland was incorporated in the British Virgin Islands on 9 October 2006 and has its corporate office located at Geneva Place, Waterfront Drive P.O. Box 3469, Road Town, British Virgin Islands. According to the subscription agreement the Group is required to invest an additional USD 2,000,000 in future Henryland share subscriptions. The share of the Group will remain 38% since all other shareholders of Henryland Group Ltd. are required to invest proportionally. The principal activity of Henryland is the development of investment property in Ukraine. Total recognized value of the Group's investments in associates as at 30 June 2008 is USD 13,431,000.

In December 2007 the Group acquired 15% shareholding interest in Hindale Ltd (Komarova project). This company, through its subsidiary Promtek Ltd, holds the lease right on a plot of land located on Komarova Avenue, Kyiv, Ukraine. In 2008, investment in Hindale Ltd was transferred from interest in associates to interest in joint ventures due to the fact that the Group has acquired an additional 35 % shareholding interest in the company through a share capital increase.

7 Interest in joint venture

As at 30 June 2008, the Group recognized its investment in Hindale Ltd (Komarova project) as interest in joint venture and 50% of assets and liabilities of the Company were added to the consolidated financial statements of Group. The Group has appointed two (out of four) representatives to the Board of Directors of Hindale Ltd, and thereby the Group has joint control over the economic activity of the Company. During 2008 the Group increased its stake in Hindale Ltd. from 15% to 50%+1 via acquisition of additional shares in the amount of USD 6,500,000. USD 1,500,000 was settled in cash. The remaining amount of USD 5,000,000 is due for payment until the end of October 2008.

The net assets of Hindale Ltd, to the extent of the Group's interest in the joint venture, were as follows at the date of acquisition:

	Recognised fair values on acquisition of Hindale Ltd.
<i>(in thousands of USD)</i>	
Non-current assets	
Property, plant and equipment	-
Investment Property	16,714
Previously recognized fair value gain on investments in associate	(4,941)
Current assets	
Inventories	-
Trade and other receivables	2,597
Cash and cash equivalents	545
Non-current liabilities	
Current liabilities	
Trade and other payables	(7)
Net identifiable assets and liabilities	14,908
Acquired Group's share in the net identifiable assets and liabilities	14,908
Gain on acquisition	8,408
Consideration paid	1,500
Consideration to be paid during 2008	5,000
Cash acquired	545
Net cash outflow	955

The gain on acquisition of Hindale Ltd results from the fair value gain on investment property since the period of signing the shareholders agreement and recognition of investment in the Group's financial statements.

8 Investment properties

Investment properties as at 30 June 2008 are as follows:

	2007			2008				
	As at 23 February 2007	Acquisitions	Fair value gains on revaluation	As at 31 December 2007	Acquisitions	Transferred from associates to IP	Fair value gains on revaluation	As at 30 June 2008
PFRE	-	8,038	10,159	18,197	1,300		2,395	21,892
Obolon	-	65,794		65,794			861	66,655
Komarova	-	-	-	-		16,714		16,714
Vita Poshtova	-	-	-	-	10,557		9,378	19,935
	-	73,832	10,159	83,991	11,857	16,714	12,634	125,196

A substantial portion of all property transactions in Ukraine are carried out through the sale of an off-shore company that ultimately owns the property. Accordingly, the appraisals obtained by management consider other factors relating to the sale of a company, including tax issues, which may not apply if the property is sold directly.

Management engaged registered independent appraiser Knight Frank, having a recognized professional qualification and recent experience in the location and categories of the projects being valued, to assist with the estimation of fair value.

Estimation of fair value is made using net present value calculation based on certain assumptions, used in the Knight Frank appraisals the most important of which are as follows:

- rental rates which were based on current rental rates
- development costs: based on current construction prices
- discount rates: range from 12.57% to 13.80%
- developers' profit: 20.0-25.0 %

For presentation purposes, deferred taxes related to the revaluation of investment properties are netted against the carrying amount of investment properties.

Sensitivity

If rental rates are 5% less than what is used in the valuation models, the fair value of investment property would be USD 7,767,000 lower. If rental rates are 5% higher, then the fair value of investment property would be USD 7,650,000 higher.

If development costs are 5% higher than what is used in the valuation model, the fair value of investment property would be USD 5,179,000 lower. If development costs are 5% less, then the fair value of investment property would be USD 5,073,000 higher.

If the discount rate applied is 1% higher than what is used in the valuation model, the fair value of investment property would be USD 4,587,000 lower. If the discount rate is 1% less, then the fair value of investment property would be USD 4,785,000 higher.

If developers' profit is 5% less than what is used in the valuation model, the fair value of investment property would be USD 4,857,000 higher. If developers' profit is 5% higher, then the fair value of investment property would be USD 5,050,000 lower.

9 Prepayments for land

During 2008 the Group increased prepayments for land acquisition for development projects from the amount of USD 96,000,000 to USD 101,000,000. The prepayments made are secured by the land. The carrying values of the prepayments approximate their fair value.

On 8 February 2008 the Group entered into the first pledge agreement (Agreement 1) to secure its prepayments for land. Under the Agreement 1 the pledgor, Graduate Technologies Ltd, granted a security interest in property as security for the performance of the prepayments. The pledge encompasses the corporate rights of Graduate Technologies Ltd in a Ukrainian subsidiary that owns land plots amounting to 82.5 hectares located in the Kyiv region.

On July 5 2008 the Group entered into the second pledge agreement (Agreement 2) to secure its prepayments for land. Under the Agreement 2 the pledgor, Palmyra Assets Ltd, granted a security interest in property as security for the performance of the prepayments. The pledge encompasses the corporate rights of Palmyra Assets Ltd in a Ukrainian subsidiary that owns land plots amounting to 95.4 hectares located in the Kyiv region.

10 Inventories

Inventories as at 30 June 2008 and at 31 December 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Construction materials	204	140
Finished goods and goods for resale	-	12
Other inventory	14	16
Total	218	168

11 Trade and other receivables

Trade and other receivables as at 30 June 2008 and at 31 December 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Prepayments made	334	3,720
Accrued interest	-	718
Other receivables	168	401
Total	502	4 839

12 Cash and cash equivalents

Cash and cash equivalents as at 30 June 2008 and at 31 December 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Cash on hand	5	3
At call funds	11,028	383
Term deposits	149,093	177 964
Total	160,126	178 350

13 Equity

Share capital and share premium as at 30 June 2008 is as follows:

	Ordinary shares	Amount
<i>(in thousands of USD, except for share numbers)</i>		
<i>Number of shares unless otherwise stated</i>		
Authorized shares	300,000,000	6,000
Par value	0,02	-
Issued during the period from 23 February to 31 December 2007	140,630,300	2,813
On issue as at 31 December 2007, fully paid	140,630,300	2,813
Authorized shares	300,000,000	6,000
Par value	0,02	-
Issued during the period from 1 January to 30 June 2008	1,698,416	34
On issue as at 30 June 2008, fully paid	142,328,716	2,847

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 208,000,000. In addition 36,630,100 ordinary shares were sold on 29 November 2007 at price of USD 2.73 per ordinary share, raising gross proceeds of USD 100,000,000. The difference between par value and net proceeds per share is recognized as share premium. During 2008 the Group issued 1,698,416 new ordinary shares to settle 70 % of Manager's performance fee for 2007 in the amount of USD 4,431,681.

14 Income tax expense

(a) Income tax expense

Income taxes for the period for the six months ended 30 June 2008 and for the six months ended 31 August 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Current tax expense	41	-
Deferred tax expense	2,944	-
Total	2,985	-

The applicable tax rate is 25% for Ukrainian companies and 10% for Cypriot companies.

(b) Reconciliation of effective tax rate

The difference between the total expected income tax expense for the period of the six month ended 30 June 2008 and for the six months ended 31 August 2008 computed by applying the Ukrainian statutory income tax rate to profit before tax and the reported tax expense is as follows:

	2008	%	2007	%
<i>(in thousands of USD)</i>				
Profit before tax	36,414	100	404	100
Computed expected income tax benefit at statutory rate	9,103	25	101	25
Effect of lower tax rates	(4,587)	(12)	-	-
Non-taxable income (income earned by holding companies)	(2,087)	(5)	(101)	25
Non-deductible expenses	556	1	-	-
Effective income tax expense	2,985	8	-	-

(c) Recognized deferred tax assets and liabilities

The movement in deferred tax assets and liabilities for the period from 1 January to 30 June 2008 is as follows:

	31 December 2007 liability	Recognized in income	31 December 2007 liability
<i>(in thousands of USD)</i>			
Investment property	(3,246)	(2,944)	(6,190)
Tax liabilities	(3,246)	(2,944)	(6,190)

The movement in deferred tax assets and liabilities for the period from 23 February to 31 December 2007 is as follows:

	23 February 2007 liability	Recognized in income	31 December 2007 liability
<i>(in thousands of USD)</i>			
Investment property	-	(3,246)	(3,246)
Tax liabilities	-	(3,246)	(3,246)

(d) Unrecognized deferred tax assets and liabilities

For the six months ended 30 June 2008 deferred tax assets amounting to USD 556,000 have not been recognized because it is not probable that future taxable profit will be available against which the Group can utilize the benefits there from.

15 Trade and other payables

Trade and other payables as at 30 June 2008 and 31 December 2007 are as follows:

<i>(in thousands of USD)</i>	2008	2007
Management and performance fees	2,928	8,835
Brokerage fee for second issue of shares	-	999
Other payables and accrued expenses	2,707	329
Total current liabilities	5,635	10,163

16 Management and Performance fees

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.

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

GAV is to be calculated on a semi-annual basis and is derived from the consolidated balance sheet after adding back any dividends declared or paid in relation to such accounting period.

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

The total management fee for the period from 1 January 2008 to 30 June 2008 is USD 2,927,894.

17 Administrative expenses

Administrative expenses for the period six months ended 30 June 2008 and for the six months ended August 31, 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Professional services	243	71
Directors' fees	63	49
Travel expenses	1	21
Insurance	19	12
Public relations expense	64	-
Bank charges	11	-
Share based compensation	14	-
Wages and salaries	136	-
Other	194	62
Total administrative expenses	745	215

18 Net financial income

Net financial income for the six months ended 30 June 2008 and for the six months ended August 31, 2007 are as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Interest income	6,518	2,172
Currency exchange losses	312	-
Net financial income	6,830	2,172

19 Contingencies

(a) 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 characterized 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 between the National Bank of Ukraine 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. Management believes that it 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 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.

(b) Insurance

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. 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.

20 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based upon the profit for the period from 1 January to 30 June 2008 attributable to the ordinary shareholders of USD 33,286,204 and a weighted average number of ordinary shares outstanding calculated as follows:

(in number of shares)

Shares issued as of 1 January 2008	140,630,300
Shares issued to settle Performance fee	1,698,416
	<hr/>
Weighted average number of shares for the period from 1 January to 30 June 2008	142,328,716
	<hr/>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of USD 33,286,204 and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

(in number of shares)

Weighted average number of shares	142,328,716
Share options	11,562
Warrants	721,488
	<hr/>
Weighted average number of shares for the period from 1 January 30 June 2008 (fully diluted)	143,061,766
	<hr/> <hr/>

21 Financial risk management

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

(a) Risk management policy

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

(b) Credit risk

When the Group enters into arrangement exposing it to credit risk, it does so only on the basis of due diligence research and the reputation of the counterparty. The largest exposures relate to bank deposits of USD 149,092,892 and prepayments made under two land acquisition contracts totaling USD 101,000,000. This latter risk is mitigated by pledge agreements for the portion of the land to be acquired.

(c) 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). Management does 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 Management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

(d) 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 30 June 2008 and 31 December 2007 is as follows based on notional amounts:

	2008	2007
<i>(in thousands of USD)</i>	UAH	UAH
Current assets		
Cash and cash equivalents	1,101	262
Trade and other receivables	440	161
Current liabilities		
Trade and other payables	(124)	(81)
Net exposure	<u>1,417</u>	<u>342</u>

The following exchange rate is applied at 30 June 2008:

UAH 1 equals	USD 0.20623
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As at 30 June 2008 a 10 percent weakening of the US dollar against the UAH would have increased (decreased) post-tax profit and equity by USD 21,917. This analysis assumes that all other variables, in particular interest rates, remain constant.

(e) Fair values

The fair values of all assets and liabilities are assumed to equal their carrying values due to their short-term nature and market interest rates at period end.

22 Related party transactions

(a) Transactions with management and close family members

Key management remuneration

Key management compensation included in the statement of operations for six months ended 30 June 2008 and for the six months ended 31 August 2007 is as follows:

	2008	2007
<i>(in thousands of USD)</i>		
Directors' fees	63	49
Share based payment expense (options vested)	14	-
	<hr/>	<hr/>
Total management remuneration	77	49
	<hr/>	<hr/>

Key management personnel and director transactions

The Directors owned shares in the Parent Company are as follows:

Boris Erenburg, one of the Group's directors, is also an executive of Spinnaker Capital Group which acquired 14,874,400 shares (10.5%) of the Group during the first and second share issues.

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 (4.9%) of the Group during the first and second share issues. Also Tomas Fiala is a director in the Dragon Capital Partners which has received as settlement of the 70% of performance fee 1,698,416 newly issued ordinary shares.

(b) Transactions with other related parties

Expenses incurred and outstanding balances of transactions for the period from 1 January to 30 June 2008 are as follows:

	2008		2007	
	Transactions	Balance outstanding	Transactions	Balance outstanding
<i>(in thousands of USD)</i>				
Payable to DRGN LTD				
Brokerage fee for initial public offering	-	-	2,048	-
Brokerage fee for second issue of shares	(999)	-	999	999
	(999)	-	3,047	999

Board of directors
21 July 2008

Chairman of the board
Heijden

Aloysius Johannes van der

Non-executive director

Fredrik Svinhufvud

Directors & Advisors

Aloysius Wilhelmus Johannes van der Heijden
(Non-Executive Chairman)
Tomas Fiala (Non-Executive Director)
Fredrik Svinhufvud (Non-Executive Director)
James Morton (Adviser to the Board)
Boris Erenburg (Non-Executive Director)

Company Secretary

Martin Jones

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