

Dragon-Ukrainian Prop. & Dev. PLC  
18 April 2008

This announcement replaces the 'Final Results' announcement released at 11.13a.m on 18 April 2008

18 April 2008

**Dragon - Ukrainian Properties & Development Plc**

**Final Audited Results for the Year Ending 31 December 2007**

Dragon - Ukrainian Properties and Development Plc., ('DUPD' or 'the Company') one of the largest AIM-quoted real estate investment companies with an exclusive focus on Ukraine, has today announced its 2007 audited consolidated financial results for the period ended 31 December 2007.  
Key Highlights:

- Successful admission to AIM on June 1, 2007;
- DUPD has raised US\$ 208 million on Admission to AIM (June 2007) and US\$ 100 million in a secondary placement (November 2007);
- US\$ 199.5 million has been committed for 7 projects;
- Net Profit after tax of US\$ 45.9 million;
- NAV growth of 15.2% to US\$ 350 million.

**Aloysius Johannes van der Heijden, Non-executive Chairman of DUPD, commented:**

"Firstly, our Admission to AIM was particularly successful as we raised the largest amount of capital for a real estate developer in Ukraine. The board would like to thank the strong support of our investors and proactive approach of our Investment Manager, Dragon Capital Partners, as the Company has succeeded to establish itself as one of the most active and well-known investors in the Ukrainian real estate market."

"Our business model, which assumes operating as developers of commercial and residential properties, mainly through partnerships with other reputable local developers, proved to be successful allowing us to commit US\$ 199.5 million across seven projects in only seven months following our IPO. This rapid deployment of capital enabled us to successfully complete a secondary raising of US\$ 100 million in November 2007."

"The Board is confident that with our extensive project pipeline we will maintain the high rate of investment pace and success in 2008."

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## **CHAIRMAN'S STATEMENT AND BUSINESS REVIEW**

DUPD was formed to invest in the development of high-quality commercial and residential real estate assets in Ukraine and to recognize strong returns on such investments. The Company commenced trading on AIM, in June 2007 raising gross proceeds of \$208 million. Subsequently, 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.

Our main focus is on the development of high-quality commercial and residential properties and to a lesser extent on acquisition and reconstruction of existing properties. We also favour alternative types of investment in real estate, including acquisitions of substantial land fields with potential for development of large-scale residential projects. Our investment and development activities focus on Kyiv and Kyiv oblast as well as other major regional centres of Ukraine with significant amount of population. Investment opportunities in smaller, yet important centres in Ukraine may be exploited by the Company, on a selective basis.

It is in-depth local knowledge, our ability to promptly re-zone land and quickly obtain project and construction permits that gives us an invaluable insight into choosing the right projects and ensuring successful completion and high investment returns.

### **Operational Review**

With an additional US\$ 3.6 million committed on existing projects during the first two months of 2008, total commitments reached US\$ 203.1 million, while uncommitted capital stood at US\$ 117.3 million. Our portfolio projects encompass all of the key segments of our investment focus, including mixed-use, residential and retail developments. We are confident that in each project we will be able to deliver a high-quality product, and thus maintain our leading position in the Ukrainian property market. DUPD has demonstrated its ability to source attractive off-market opportunities through the extensive network of proprietary contacts of our investment manager in Ukraine. Our management team is being continually enhanced with dedicated property professionals with solid experience in the Ukrainian market.

This allows us to continue sourcing deals on favorable terms and secure delivery of our existing projects under development.

Our investment strategy, focusing on development of quality commercial and residential properties, continues to be supported by robust growth of the Ukrainian real estate market, favorable macroeconomic trends and a large undersupply of quality properties across all segments of the market.

Looking ahead, 2008 will be a year of great importance for our on-going projects. Based on the progress to-date, I am confident that the permitting and development processes on existing projects will continue as planned, thus creating additional value for our

shareholders.

### **Financial Review**

The Company is pleased to present its financial results for the period ended 31 December 2007 which are in line with management's expectations. The consolidated financial statements are prepared by KPMG, in accordance with IFRS.

During the period under review, the Company generated net profit after tax of US\$ 45,886,000.

As at 31 December 2007, the Company had current assets, mainly comprised of bank deposits, prepayments, investment property, totaling US\$ 196.2 million. The Company's current liabilities remained insignificant, comprising mainly of fee payables to the Investment Manager (Management and Performance fee), and amounted to US\$ 10.2 million. The Company had no short term or long term bank borrowings, or any third party loans. The current liabilities to current assets ratio was 5.2%, whereas the total liabilities to total assets ratio of the Company was 3.5% as at 31 December 2007.

The Company is operating in the Ukrainian real estate segment where rental rates and real estate prices are denominated in US dollars. Thus, the board has decided to choose US dollar as a reporting currency for the Company.

The Company does not intend to declare a dividend for the year ended 31 December 2007.

### **Management and Board**

The Board of Directors is comprised by a set of highly experienced individuals. Each director brings a wealth of knowledge and a specific skill set within the real estate business.

### **Prospects**

Evidenced by our performance in 2007, the Company has proved its ability to source excellent off market opportunities that offer strong upside potential for our shareholders. Although, the Ukrainian real estate market is becoming more competitive with an increasing number of foreign real estate investors active in Central Eastern Europe region and Ukraine in particular, we believe that through a dedicated management team, having full-time local presence, extensive market expertise and strong reputation in the market, we will be able to identify, structure and execute market transactions that will feature the same characteristics, as the ones we have already completed, in terms of investment attractiveness.

It is the availability of dedicated local resources, which also makes us confident in timely and cost efficient execution of our on-going transactions, including completion of consolidation on the land banking side, which should become a substantial contribution to the enhancement of our asset base.

I would like to thank all of our professional advisers, who have

assisted us throughout the year as we continue to expand the business. In addition, I would like to express my gratitude to all the staff of the Company for their hard work during what has been a very exciting but demanding year.

## **DIRECTORS' REPORT**

The Directors present their annual report and the audited consolidated and Parent Company financial statements of Dragon-Ukrainian Properties & Development plc. (the Company) and its subsidiaries (the Group) as at for the period from 23 February to 31 December 2007.

### **Principal activities**

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

The Company was incorporated in the Isle of Man on 23 February 2007. The 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 Company raised USD 208 million through Initial Public Offering on the sub-market of the London Stock Exchange - Alternative Investment Market (AIM). On 29 November 2007 the Company completed a secondary placing on AIM and raised USD 100 million.

### **Results**

The Group made a profit for the period from 23 February to 31 December 2007 before taxation of USD 49,146,000, all of which has been transferred to reserves.

### **Dividend**

No interim dividend has been paid during period from 23 February to 31 December 2007

The Directors do not propose a final dividend period from 23 February to 31 December 2007.

### **Directors**

The Directors of the Company during the year and to date are:

**Aloysius Wilhelmus Johannes van der Heijden since**

Date of appointment 10 April 2007

**Fredrik Svinhufvud since**

Date of appointment 10 April 2007

**Tomas Fiala**

Date of appointment 26 February 2007

**Boris Erenburg**

Date of appointment 14 September 2007

#### **Directors' interests**

The Directors owned shares in the Company are as follows:

	31 December 2007	
	Number of shares	Ownership, %
Tomas Fiala	<u>6,831,500</u>	<u>4.9</u>

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.

#### **Auditors**

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with Section 12 (2) of the Isle of Man Companies Act 1982.

#### **Statement of Directors' responsibilities in respect of the Directors' report and the financial statements**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

#### Balance Sheet as at 31 December 2007

		Consolidated	Parent Company
		31 December	31 December
	Note	2007	2007
<i>(in thousands of USD)</i>			
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	6	83,991	-
Prepayments for land	7	96,000	-
Investments in subsidiaries		-	19
Investments in associates	3(a)	16,209	8,000
Property and equipment		28	-
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>196,228</b>	<b>8,019</b>
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	8	168	-
Trade and other receivables	9	4,839	214,024
Cash and cash equivalents	10	178,350	89,652
		<hr/>	<hr/>
<b>Total current assets</b>		<b>183,357</b>	<b>303,676</b>
		<hr/>	<hr/>
<b>Total assets</b>		<b>379,585</b>	<b>311,695</b>
		<hr/>	<hr/>

		Consolidated	Parent Company
		31 December	31 December
	Note	2007	2007

(in thousands of USD)

**Equity and Liabilities**

<b>Equity</b>	11		
Share capital		2,813	2,813
Share premium		293,994	293,994
Retained earnings		53,139	4,846
		<hr/>	<hr/>
<b>Total equity attributable to equity holders of the Company</b>		349,946	301,653
<b>Minority interests</b>		16,216	-
		<hr/>	<hr/>
<b>Total equity</b>		366,162	301,653
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Deferred tax liabilities	12	3,246	-
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		3,246	-
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	13	10,163	10,042
Income tax payable	14	14	-
		<hr/>	<hr/>
<b>Total current liabilities</b>		10,177	10,042
		<hr/>	<hr/>
<b>Total liabilities</b>		13,423	10,042
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		379,585	311,695
		<hr/>	<hr/>

This consolidated balance sheet was approved by management on 14 April 2008 and was signed on its behalf by:

Chairman of the board Aloysius Johannes van der Heijden

Non-executive director  Frederick Svinhufvud

**Income Statement for the year ending 31 December 2007**

	Note	Consolidated 2007	Parent Company 2007
(in thousands of USD)			
Fair value gains on revaluation of investment properties	6	10,159	-



Management and performance fees	14	(10,388)	(10,388)
Administrative expenses	16	(835)	(648)
<b>Results from operating activities</b>		<b>(1,064)</b>	<b>(11,036)</b>
Gain on acquisition of subsidiary	5	36,503	-
Net financial income	17	5,498	8,782
Share of the profit of associates		8,209	-
<b>Profit (loss) before income tax</b>		<b>49,146</b>	<b>(2,254)</b>
Income tax expense	12	(3,260)	-
<b>Profit (loss) for the year</b>		<b>45,886</b>	<b>(2,254)</b>
Attributable to:			
Equity holders of the Company		46,039	(2,254)
Minority interests		(153)	-
<b>Profit (loss) for the year</b>		<b>45,886</b>	<b>(2,254)</b>
<b>Earnings (loss) per share</b>	19		
Basic earnings (loss) per share (in USD)		0.61	(0.03)
Diluted earnings (loss) per share (in USD)		0.60	(0.03)

The Directors consider that all results derive from continuing activities.

#### Cash flow statement for the year ended 31 December 2007

	Note	Consolidated 2007	Parent Company 2007
<i>(in thousands of USD)</i>			
<b>Cash flow from operating activities</b>			
Profit (loss) before income tax		49,146	(2,254)
Adjustments for:			
Gain on acquisition of subsidiary	5	(36,503)	-
Fair value gains on revaluation of investment properties	6	(10,159)	-
Share of the profit of associates		(8,209)	-
Net financial income		(5,498)	-
<b>Operating cash flow before changes in</b>		<b>(11,223)</b>	<b>(2,254)</b>

<b>working capital</b>		
Increase in inventories	(140)	-
Increase in trade and other receivables	(4,103)	(214,024)
Increase in trade and other payables	10,092	10,042
Share based payments	18	18
	<hr/>	<hr/>
<b>Cash flows used in operating activities</b>	<b>(5,356)</b>	<b>(206,218)</b>
	<hr/>	<hr/>
<b>Cash flow from investing activities</b>		
Interest received	4,780	-
Acquisition of investment property	(8,038)	-
Prepayments for land	(96,000)	-
Acquisition of subsidiary, net of cash acquired	5 (12,925)	(19)
Investments in associates	(8,000)	(8,000)
	<hr/>	<hr/>
<b>Cash flows used in investing activities</b>	<b>(120,183)</b>	<b>(8,019)</b>
	<hr/>	<hr/>
<b>Cash flow from financing activities</b>		
Proceeds from the issue of share capital	303,889	303,889
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>	<b>303,889</b>	<b>303,889</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>178,350</b>	<b>89,652</b>
Cash and cash equivalents at 23 February	-	-
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	<b>178,350</b>	<b>89,652</b>
	<hr/> <hr/>	<hr/> <hr/>

**Attributable to equity holders of the Company**

	Share capital	Share premium	Retained earnings	Total	Minority interests	Total
<i>(In thousands of USD)</i>						
<b>Balance at 23 February 2007</b>	-	-	-	-	-	-
Profit for the period from 23	-	-	46,039	9	(153)	45,886

February to 31 December 2007						
Share based compensation	-	-	18	18	-	18
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total recognized income and expenses	-	-	46,057	46,057	(153)	45,904
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Shares issued:	2,813	305,187	-	308,000	-	308,000
Cost of shares issued						
Cash	-	(4,111)	-	(4,111)	-	(4,111)
Share based payments	-	(7,082)	7,082	-	-	-
Acquisition of subsidiary	-	-	-	-	16,369	16,369
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2007</b>	<b>2,813</b>	<b>293,994</b>	<b>53,139</b>	<b>349,946</b>	<b>16,216</b>	<b>366,162</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Parent Company

	Share capital	Share premium	Retained earnings	Total
<i>(In thousands of USD)</i>				
<b>Balance at 23 February 2007</b>	-	-	-	-
Loss for the period from 23 February to 31 December 2007	-	-	(2,254)	(2,254)
Share based compensation	-	-	18	18
	<hr/>	<hr/>	<hr/>	<hr/>
Total recognized income and expenses	-	-	(2,236)	(2,236)
	<hr/>	<hr/>	<hr/>	<hr/>
Shares issued:	2,813	305,187	-	308,000
Cost of shares issued				
Cash	-	(4,111)	-	(4,111)
Share based payments	-	(7,082)	7,082	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>2,813</b>	<b>293,994</b>	<b>4,846</b>	<b>301,653</b>

## **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 2007 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**

#### **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 6 - valuation of investment property
- note 15 - measurement of share-based payments

**3 Significant accounting policies**

The significant accounting policies applied in the preparation of the consolidated financial 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:

<b>Name</b>	<b>Country of incorporation</b>	<b>% of ownership</b>
Bi Dolyna Development LTD	Ukraine	100%
Landshere LTD	Cyprus	95%
Landzone LTD	Cyprus	100%
Linkdell LTD	Cyprus	100%
Linkrose LTD	Cyprus	100%
Mountcrest LTD	Cyprus	100%
EF Nova Oselya LTD	Ukraine	100%
OJSC "Dom byta "Obolon"	Ukraine	75%
Riverscope LTD	Cyprus	95%
Startide LTD	Cyprus	100%

#### **(ii) Associates**

Associates are those entities in which the Group has significant influence, but not 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.

The Group has the following investments in associates as at 31 December 2007:

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

The following is summarized financial information, in aggregate, in respect of associates:

	Henryland Ltd.	Hindale Ltd.	Total
<i>(in thousands of USD)</i>			
Total assets	42,602	33,202	75,804
Total liabilities	3,993	258	4,251
Profit for the year	8,597	32,937	41,534

During 2007 the Group invested USD 8,000,000 in Henryland Group Ltd (Henryland). 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 4,000,000 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.

In December 2007 the Group acquired 15% of the shareholding interest of Hindale Ltd. This company, through its subsidiary Promtek Ltd, holds the lease right on a plot of land located on Komarova Avenue, Kiev, Ukraine. The Group has the right to appoint two (out of four) representatives to the Board of Directors, and thereby has significant influence over its financial and operating activities. Pursuant to a shareholder agreement, the Group intends to acquire 50% + 1 share through participation in a proposed share capital increase.

**(iii) 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 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 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 for the year ended 31 December 2007, 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 analysed 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.

International Financial Reporting Interpretations Committee (IFRIC) 11 *IFRS 2 - Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 is mandatory for the 2008 consolidated financial statements, with retrospective application required.

#### 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 period from 23 February to 31 December 2007 is as follows:

	Offices	Retail	Residential	Unallocated	Total
<i>(in thousands of USD)</i>					
Valuation gains on investment property	-	-	10,159	-	10,159
Management and performance fees	(3,812)	(415)	(6,161)		(10,388)
Administrative expenses	(47)	(22)	(90)	(676)	(835)
<b>Results from operating activities</b>	<b>(3,859)</b>	<b>(437)</b>	<b>3,908</b>	<b>(676)</b>	<b>(1,064)</b>
Gain on acquisition of subsidiary	36,503	-	-	-	36,503
Financial income	-	-	77	5,421	5,498
Share of profit of associates	-	8,209	-	-	8,209
<b>Profit before income tax</b>	<b>32,644</b>	<b>7,772</b>	<b>3,985</b>	<b>4,745</b>	<b>49,146</b>

Income tax expense	-	-	(3,246)	(14)	(3,260)
<b>Segment results</b>	<b>32,644</b>	<b>7,772</b>	<b>739</b>	<b>4,731</b>	<b>45,886</b>

Assets and liabilities by business segments as at 31 December 2007 are as follows:

	Offices	Retail	Residential	Unallocated	Total
<i>(in thousands of USD)</i>					
Segment assets	65,943	-	119,563	-	185,506
Investment in associates	-	16,209	-	-	16,209
Unallocated assets	-	-	-	177,870	177,870
<b>Total assets</b>	<b>65,943</b>	<b>16,209</b>	<b>119,563</b>	<b>177,870</b>	<b>379,585</b>
Segment liabilities	3,317	361	8,530	1,215	13,423
<b>Total liabilities</b>	<b>3,317</b>	<b>361</b>	<b>8,530</b>	<b>1,215</b>	<b>13,423</b>

## 5 Acquisition of subsidiary

In November-December 2007 the Group acquired 75.15% of the shares in Open Joint Stock Company Dom Byta "Obolon" (Obolon) for USD 13,000,000 which was settled in cash. Obolon's main business is renting office and trade space. The net assets of the acquired subsidiary were as follows at the date of acquisition:

	Pre-acquisition carrying amounts on a comparable IFRS basis	Fair value adjustments	Recognised fair values on acquisition
<i>(in thousands of USD)</i>			
<b>Non-current assets</b>			
Investment property	378	65,416	65,794
Property, plant and equipment	263	(235)	28
Investments	2	(2)	-
<b>Current assets</b>			
Inventories	24	3	27
Trade and other receivables	18	-	18



Cash and cash equivalents	75	-	75
<b>Non-current liabilities</b>			
Deferred tax liabilities	(18)	18	-
<b>Current liabilities</b>	-	-	-
Trade and other payables	(70)	-	(70)
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Net identifiable assets and liabilities</b>	<b>672</b>	<b>65,200</b>	<b>65,872</b>
	<u>        </u>	<u>        </u>	<u>        </u>
Group's share in net identifiable assets and liabilities			49,503
Gain on acquisition			(36,503)
			<u>        </u>
Consideration paid			13,000
Cash acquired			(75)
			<u>        </u>
<b>Net cash outflow</b>			<b>12,925</b>
			<u>        </u>

The gain on acquisition 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.

Since Obolon was acquired by the Group close to the year end there was no post acquisition profit earned by this subsidiary in 2007.

The revenue of the Group would be approximately USD 845,000 higher (unaudited) and net profit would be approximately USD 3,000 lower (unaudited) if the acquisition date for Obolon had been as at 23 February 2007.

## 6 Investment properties

Investment properties as at 31 December 2007 are as follows:

	Freehold land	Leasehold land	Total
<i>(in thousands of USD)</i>			
Acquisitions	8,038	65,794	73,832
Fair value gains on revaluation	10,159	-	10,159
	<u>        </u>	<u>        </u>	<u>        </u>
	18,197	65,794	83,991
	<u>        </u>	<u>        </u>	<u>        </u>

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 12.07% to 12.96%
- developers' profit - 20.0-25.0 %

In estimating the value of investment properties, management recognizes that certain adjustments should be applied, where necessary, in order to take into consideration changes in cash flows relating to income taxes and VAT. For instance, discount rates that apply to a direct asset sale should be reduced to approximately 9.0%, or lower.

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 model, the fair value of investment property would be USD 7,500,000 lower. If rental rates are 5% higher, then the fair value of investment property would be USD 7,400,000 higher.

If development costs are 5% higher than what is used in the valuation model, the fair value of investment property would be USD 3,000,000 lower. If development costs are 5% less, then the fair value of investment property would be USD 2,900,000 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 3,500,000 lower. If the discount rate is 1% less, then the fair value of investment property would be USD 3,700,000 higher.

If developers' profit is 5% less than what is used in the valuation model, the fair value of investment property would be USD 3,216,000 higher. If developers' profit is 5% higher, then the fair value of investment property would be USD 3,352,000 lower.

## 7 Prepayments for land

The Group made prepayments for land acquisition for development projects in the amount of USD 96,000,000 secured by the land (note 22). The carrying values of the prepayments approximate their fair value.

## 8 Inventories

Inventories as at 31 December 2007 are as follows:

	Consolidated	Parent
	2007	Company
		2007
<i>(in thousands of USD)</i>		
Construction materials	140	-
Finished goods and goods for resale	12	-
Other inventory	16	-
	<hr/>	<hr/>
<b>Total</b>	<b>168</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

## 9 Trade and other receivables

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

	Consolidated	Parent
	2007	Company
		2007
<i>(in thousands of USD)</i>		
Receivables from Group companies	-	213,787
Prepayments made	3,720	-
Accrued interest	718	-
Other receivables	401	237
	<hr/>	<hr/>
<b>Total</b>	<b>4,839</b>	<b>214,024</b>
	<hr/> <hr/>	<hr/> <hr/>

## 10 Cash and cash equivalents

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

	Consolidated	Parent Company
	2007	2007
<i>(in thousands of USD)</i>		
Petty cash	3	-
Bank balances	383	90
Call deposits	177,964	89,562
	<hr/>	<hr/>
<b>Total</b>	<b>178,350</b>	<b>89,652</b>
	<hr/>	<hr/>

Call deposits represent one week deposits with The Royal Bank of Scotland International Ltd of USD 89,562,102 that bear interest between 4.28% and 4.76% per annum, and short term deposits that can be withdrawn upon 14 days notice that are placed in Ukrainian banks amounting to USD 88,402,516 that bear interest between 9.5% and 10.7% per annum.

An analysis of the sensitivity of the projected interest income for the year ended 31 December to interest rate repricing risk based on a simplified scenario of 100 basis points (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	Consolidated	Parent Company
	2007	2007
<i>(in thousands of USD)</i>		
100 bp parallel increase	1,212	884
100 bp parallel decrease	(1,212)	(885)

The effect is determined based on the assumption that these deposits would be replaced at their maturity date at the current market rate and an increase or decrease of 100 bp.

## 11 Equity

Share capital and share premium as at 31 December 2007 is as follows:

	Ordinary shares	Amount
<i>(in thousands of USD, except for share numbers)</i>		

*Number of shares unless otherwise stated*

Authorized shares	300,000,000	6,000
Par value	0.02	
Issued for cash during the period from 23 February to 31 December 2007	140,630,300	2,813
	<u>                    </u>	<u>                    </u>
On issue as at 31 December, fully paid	140,630,300	2,813
	<u>                    </u>	<u>                    </u>

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.

## 12 Income tax expense

### (a) Income tax expense

Income taxes for the period from 23 February to 31 December 2007 are as follows:

	Consolidated	Parent
	2007	Company
		2007
<i>(in thousands of USD)</i>		
Current tax expense	14	-
Deferred tax expense	3,246	-
	<u>                    </u>	<u>                    </u>
<b>Total</b>	<b>3,260</b>	<b>-</b>
	<u>                    </u>	<u>                    </u>

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

### (b) Reconciliation of effective tax rate

The difference between the total expected income tax expense for the period from 23 February to 31 December 2007 computed by applying the

Ukrainian statutory income tax rate to profit before tax and the reported tax expense is as follows:

	2007	%
<i>(in thousands of USD)</i>		
Profit before tax	49,146	100
Computed expected income tax benefit at statutory rate	12,286	25
Effect of lower tax rates	(5,958)	(12)
Non-taxable income (income earned by holding companies)	(3,438)	(7)
Non-deductible expenses	370	1
<b>Effective income tax expense</b>	<b>3,260</b>	<b>7</b>

**(c) Recognized deferred tax assets and liabilities**

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**

Deferred tax assets amounting to USD 353,000 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

**13 Trade and other payables**

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

	Consolidated 2007	Parent Company 2007
<i>(in thousands of USD)</i>		
Management and performance fees	8,835	8,835

Brokerage fee for second issue of shares	999	999
Other payables and accrued expenses	329	208
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>10,163</b>	<b>10,042</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 14 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 Manager is 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 is the aggregate of the consolidated non-current and current assets of the Group adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the Group's Property Valuation Policy less its consolidated liabilities (including minority interest and payables related to Management Fee) provided that, in respect of the Group's first accounting reference period, the opening NAV is 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 is 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 is entitled to an additional performance fee in respect of such accounting period of 25% of the amount by which such excess exceeds 35%.

Payment of 30% of the performance fee will be paid within 10 business days following the publication of the Group's 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.

The total management fee for the period from 23 February to 31 December 2007 is USD 4,057,132, and the performance fee is USD 6,331,973. The average middle market closing price of ordinary shares over the last 20 business days of 2007 is USD 2.609 per share. A total of 70 % of the performance fee will be settled by issue of 1,698,416 new ordinary shares.

## 15 Share based payments

On 16 May 2007 the 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 Company.

On 16 May 2007 the 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)	Immediately	Immediately	Immediately	
Expiry date	(1)	16 May 2012	29 November 2012	16 May 2012	
Exercise price	2.00	2.00	2.73	2.00	
Fair value at date of grant (USD thousand)	84	4,279	1,947	856	7,166
Share based payments recognized in cost of shares issued (USD thousand)	-	4,279	1,947	856	7,082
Share based compensation	18	-	-	-	18



(USD thousand)

(1) Options granted to Mr. van der Heijden will 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

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

There were no forfeited or exercised options during the year.

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:

	Key management personnel	Dragon Capital Initial share issue	Partners Ltd Secondary share issue	Zimmerman Adams International Ltd
<i>(in USD, except for number of shares and percent)</i>				
Fair value at grant date	0.82	0.82	1.06	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
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 recognized for the period from 23 February to 31 December 2007 are as follows:

2007

*(in thousands of USD)*

Share options granted in 2007	
Share options (compensation expenses)	18
Warrants to Dragon Capital Partners (share issue cost)	6,226
Warrants to ZAI (share issue cost)	856
<b>Total share based payments</b>	<b>7,100</b>

The warrants granted to Dragon Capital Partners and ZAI relate to the listing of shares on AIM and subsequent share issues, and therefore are included in the cost of share issues in the consolidated statement of changes in equity.

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

	Weighted average fair value	Weighted average exercise price	Number of options and warrants
<i>(in USD, except for number of shares)</i>			
Outstanding at 23 February 2007	-	-	-
Granted during the year	0.88	2.16	8,171,505
Outstanding at 31 December 2007	0.88	2.16	8,171,505
Exercisable at 31 December 2007	0.88	2.17	8,071,505

## 16 Administrative expenses

Administrative expenses for the period from 23 February to 31 December 2007 are as follows:

	Consolidated	Parent Company
	2007	2007
<i>(in thousands of USD)</i>		
Professional services	505	364
Audit fees	105	73
Directors' fees	91	91
Travel expenses	50	50
Insurance	25	25
Advertising	17	17
Bank charges	14	7
Share based compensation	18	18

Other	10	3
	<hr/>	<hr/>
<b>Total administrative expenses</b>	<b>835</b>	<b>648</b>
	<hr/>	<hr/>

## 17 Net financial income

Net financial income for the period from 23 February to 31 December 2007 is as follows:

	Consolidated	Parent
	2007	Company
	2007	2007
<i>(in thousands of USD)</i>		
Interest income on inter-Group loans	-	6,329
Interest income	5,503	2,452
Currency exchange losses	(5)	1
	<hr/>	<hr/>
<b>Net financial income</b>	<b>5,498</b>	<b>8,782</b>
	<hr/>	<hr/>

## 18 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 year 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 the 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.

**19 Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share is based upon the profit for the period from 23 February to 31 December 2007 attributable to the ordinary shareholders of USD 46,038,547 and a weighted average number of ordinary shares outstanding calculated as follows:

	2007
<i>(in number of shares)</i>	
Shares issued on incorporation on 23 February	1
Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May	10
Shares issued on 1 June	60,333,449
Shares issued on 29 November	14,874,359
	<hr/>
<b>Weighted average number of shares for the period from 23 February to 31 December</b>	<b>75,207,819</b>
	<hr/> <hr/>

**Diluted earnings per share**

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of USD 46,038,547 and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

	31 December 2007
<i>(in number of shares)</i>	
Weighted average number of shares for the year ended 31 December	75,207,819
Share options	14,628
Warrants	912,807
	<hr/>
<b>Weighted average number of shares for the period from 23 February 31 December (fully diluted)</b>	<b>76,135,254</b>
	<hr/> <hr/>

## 20 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 basis of due diligence research and the reputation of the counterparty. The largest exposures relate to bank deposits of USD 177,964,424 and prepayments made under two land acquisition contracts totaling USD 96,000,000. 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 31 December is as follows based on notional amounts:

	2007
	UAH
<i>(in thousands of USD)</i>	
<b>Current assets</b>	
Cash and cash equivalent	262
Trade and other receivables	161
<b>Current liabilities</b>	
Trade and other payables	(81)
	<hr/>

Net exposure

342

The following exchange rates applied at 31 December 2007:

	USD
UAH 1 equals	0.1980

As at 31 December 2007 a 10 percent weakening of the US dollar against the UAH would have increased (decreased) post-tax profit and equity by USD 3,000. 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.

**21 Related party transactions**

**(a) Transactions with management and close family members**

**(i) Key management remuneration**

Key management compensation included in the statement of operations for the period from 23 February to 31 December 2007 is as follows:

	2007
<i>(in thousands of USD)</i>	
Directors' fees	91
Share based payment expense (options granted)	18
	<hr/>
<b>Total management remuneration</b>	<b>109</b>
	<hr/>

**(ii) Key management personnel and director transactions**

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

	31 December 2007	
	Number of	Ownership, %
	shares	
Tomas Fiala	6,831,500	4.9
	<hr/>	<hr/>

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.

**(b) Transactions with other related parties**

Expenses incurred and outstanding balances of transactions for the period from 23 February to 31 December 2007 are as follows:

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

All outstanding balances are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

**22 Events subsequent to the balance sheet date**

Subsequent to 31 December 2007 the Group increased its stake in the Obolon project from 75.15% to 96.55% by acquisition of additional shares for the amount of USD 3,205,000, which was settled in cash.

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

	Recognised fair values on acquisition
<i>(in thousands of USD)</i>	
<b>Non-current assets</b>	
Property, plant and equipment	28
Investment Property	65,794
<b>Current assets</b>	
Inventories	27
Trade and other receivables	18
Cash and cash equivalents	59
<b>Non-current liabilities</b>	
<b>Current liabilities</b>	
Trade and other payables	(70)
	<hr/>
<b>Net identifiable assets and liabilities</b>	65,856
	<hr/>
Acquired Group's share in the net identifiable assets and liabilities	14,093
	<hr/>
Gain on acquisition	(10,888)

Consideration paid	3,205
Cash acquired	-
Net cash outflow	<u>3,205</u>

On 8 February 2008 the Group entered into a pledge agreement (Agreement) to secure its prepayments for land. Under the Agreement 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 80 hectares located in the Kyiv region.

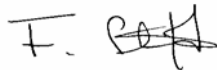
On the 28 February 2008 the Group entered into a land acquisition agreement (Land Agreement). Pursuant to the Land Agreement the Group intends to acquire indirectly through legal entities and/or natural persons land plots with total area of approximately 31.8 hectares, situated at Vita Pochtova village. In 2008 the Group made prepayments according to the Land Agreement in the amount of USD 8,670,000. Total commitments under the agreement are USD 14,000,000.

Board of directors  
14 April 2008

Chairman of the board  
Johannes van der Heijden

Aloysius

Non-executive director



Frederick Svinhufvud