

3 May 2011

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

Results for the year ended 31 December 2010

Dragon-Ukrainian Properties & Development plc, a leading investor in the real estate sector in Ukraine, is pleased to announce its final results for the year ended 31 December 2010 and to provide an update on operations since its Interim Results, released on 3 August 2010.

Highlights

Operational Highlights

- Strong performance in development projects
- Solid progress on sales of residential properties
- Substantially reinforced commercial property portfolio through new acquisition
- Significant progress on completion of soft-development stage on the Obolon project

Financial Highlights

- NAV per share of USD2.52 at 31 December 2010 (up 1% since 31 December 2009)
- Uncommitted cash of USD19m as at 31 December 2010 (2009: USD57.7m)
- USD268m committed funds as at end of 2010 across 11 investments (2009: USD231.3m across 10 investments)
- USD44.9m cash balance as at 31 December 2010 (2009: USD86.2m)

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

“We are pleased to have reported a positive net income of USD1.8 million for the first time since 2007. We remain focused on our key objectives and look forward to delivering further progress in 2011.”

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Chairman's Statement

I am pleased to announce the Company's annual results for the year ended 31 December 2010.

During the year, the Manager has made significant progress on all projects in our portfolio delivering a strong performance in development projects, solid progress on sales of residential properties and substantially reinforcing our commercial property portfolio through new acquisitions. Alongside this, significant progress has been made on completion of soft-development stage on the Obolon project and on receipt of approval and permits in one of the landbanking projects. Our strategy of pursuing opportunities on acquisitions of income generating properties in the retail segment, has proven to be well grounded, as in 2009-2010, the retail segment was the most resilient to the effects of economic crisis compared to other property sectors in Ukraine. We believe that the local retail property market will demonstrate further growth in the medium term as global and domestic economic conditions improve, due to pent up demand and high retail potential of Ukraine. Such strategy was successfully realized through acquisition of 35% stake in Arricano Trading Limited, a holding company of 5 completed and semi-completed retail properties with total GLA of 232,000 m², of which 128,000 m² operational and the balance scheduled for delivery during 2011-2013.

The investment has been in the TOP5 of investment transactions while one of the shopping malls in the portfolio, SkyMall, was named the best shopping mall of the year in Ukraine. Our cottage communities have been also highly appraised by the market, with Riviera Villas named the "Best elite gated community in Kiev" and Green Hills "Best business class community in Kiev". Sales in both communities allowed the company to generate and collect USD1.5 mln in net proceeds, which is more than 3 times higher than last year.

Results

The Company's Net Asset Value ("NAV") slightly recovered reaching USD 296.8 mln, which is 1% above the 2009 result, growing for the first time since 1H2008. Net income was also positive (USD 1.8 mln) supported by the stable portfolio valuation by CBRE and improving from the net loss of USD 8.9 mln in the previous year.

Dividend

As reported previously, the Company's focus is on driving rental income, sales of residential properties and efficiency across the business so that the payment of a dividend can be introduced when appropriate. We are therefore not proposing to make a dividend payment, but will continue to review this policy.

Board changes

On 4 March 2011 Rafaël Biosse Duplan stepped down from the Board of the Company and was replaced by Christopher Watson. The Board would like to thank Rafaël for his contribution to the Company over the last three years.

Outlook

We expect 2011 to be an extremely important year in the history of DUPD. It should become a crucial point for our residential projects, as first home-owners are moving in our gated communities, which are now offering a combination of high-quality construction standards, completed infrastructure and a unique concept for the local competitive landscape. We expect to commence phased construction of

our 65,000 m2 Obolon Residential Towers project, which should bring new quality standards to the local high-rise residential market. Retail property stock in operations within our portfolio is expected to increase by 10,000 m2, through new deliveries under Arricano portfolio, while an additional 34,000 m2 will be under construction in Arricano and Henryland portfolio. This, combined with the fundamental strength of our business model and continuous strategy of being conservative on valuations and leveraging the portfolios, puts the Company in a strong financial position. We remain focused on our key objectives and look forward to delivering further progress in 2011.

Aloysius Wilhelmus Johannes van der Heijden
Non-Executive Chairman

Investment Manager's Report

Overview

Following DUPD's focus on targeting acquisitions of completed, income yielding assets, we have successfully consummated the first such transaction investing USD30m into Arricano Trading Ltd., a real estate development company holding rights to 5 shopping centre projects around Ukraine at various stages of development. Arricano raised an additional USD60m to finance a call option 50% plus 1 share stake in Sky Mall, currently owned by its local partner. Sky Mall is the largest and award winning ("Best large Shopping Center 2010" Commercial Property Awards) shopping centre in Kyiv, with an internationally acclaimed design by Chapman Taylor – UK and top quality tenants, including Inditex Group, TopShop, NewYorker, M&S, Kronverk Cinema, and anchored by Auchan.

Arricano is one of the largest shopping centre developers in Ukraine with a remarkable growth potential. It is currently constructing two shopping centres: the 2nd phase of 10,000sqm for City Mall in Zaporizhzhya - nearly completed, planned for opening in April 2011, and M26 in Kyiv – construction started in November 2010, planned to open in 1Q2012. The Company is also currently in discussions with a bulge bracket investment bank regarding a USD30m financing in the form of a convertible loan. It is planning to complete its portfolio projects by 2013 and to have an IPO in 2012 in order to attract financing for development of new pipeline projects.

DUPD may consider making one more acquisition during 2011 within the same investment strategy of income yielding assets when an attractive opportunity arises. At the same time, we maintain our focus on the development of existing projects in our portfolio. The team managed to complete design documentation and pass state detailed expertise on the Obolon project. Preparation works for demolition of the existing consumer service centre (planned for 2Q2011) are completed and the building is now tenant free. A preliminary agreement was reached with an international bank on project finance, and construction works are scheduled to start in 2H2011.

Sales campaigns in Green Hills and Riviera Villas were highly fruitful in 2010, resulting in the sell-out of the Dream Streets and bringing the total number of homes pre-sold to 20 and 3, respectively. Inspired by the strong results, DUPD approved additional equity investments of USD2.6million and USD3.8million into Green Hills and Riviera Villas respectively.

The funds will be used for construction of centralized water supply and sewerage systems as well as building new "Dream Streets" aimed to boost sales further. We also agreed with a private American clinic and a kindergarten to open their premises within Green Hills community. Despite difficult market conditions, the communities promptly occupied market leading positions, allowing us to expect their strong performance in 2011.

We have also progressed under Glangate project, which envisions development of two shopping centres in 2nd tier regional cities. While retailers' demand is currently focused only on Kyiv and largest regional cities, we expect it to expand also to smaller regional cities of Ukraine in the course of the next 2-3 years. Hence we expect that construction in Kremenchuk and Rivne can start no sooner than in 2012. In the meantime, we have completed design documentation and passed the detailed state

expertise of Kremenchuk shopping centre project, and completed the acquisition of Rivne project (part of the land plot still needs to be rezoned) having started concept development of the project. Although of longer term nature, these projects fall within the retail segment which we deem to be the most lucrative segment in the Ukrainian real estate market.

Market Overview

In 2010, Ukraine continued to emerge from the crisis following and strengthening the recovery trend started in the second half of 2009. It became obvious to both landlords and property occupiers that the market has passed its low point and that time is coming for taking investment decisions and resuming business expansion. This conception resulted in a number of investment transactions recorded in the local market for the first time since 2H2008, recovery of end-users' demand for quality commercial space, and further yield compression. According to Colliers International, prime yields compressed from 15-18% to 12-14% in 2010, although no investment transactions were recorded at these levels.

Principal market indicators have improved across all property sectors, with retail real estate sector leading the trend due to a surge in consumer spending and significant undersupply of quality shopping space.

Debt finance has remained largely unavailable restraining the pace of the market recovery although not halting it completely. However, the starting shift of the banks' interest from government bonds to corporate and consumer lending bodes well for the growth of the commercial and residential property markets in 2011-2012.

Office Segment

In 2010, new supply of office space in Kyiv reached 110,000sqm, which was in line with the previous year, increasing the total office stock in the city to just over 1,200,000sqm. Rents have bottomed-up, although the extent of their increase was limited to 10-15%. However, the sector is in a much better shape than a year ago, due to a strong increase of demand. The volume of take-up in 2010 reached 120,000sqm, being a 40% improvement over 2009. With limited new supply, this led to rapid thinning of vacancy rates from over 20% in the middle of 2009 to 14% by the end of 2010. As most tenants were seeking opportunities to improve their office space taking advantage of depressed rents (89% of recorded leases), the demand for centrally located class A buildings prevailed, bringing the vacancies in this sub-sector down to as low as 4%. Class B vacancies remained high (16%), since historically over 70% of the existing supply falls under this category. Tenants have also proved to be more quality conscious, and so the market is now featuring buildings with both zero and over 50% vacancy.

The volume of new supply in 2011 is expected not to exceed 150,000sqm, which would allow the current trend of lowering vacancies and growing rents to continue. At the same time, due to the small capacity of the sector in general, delivery of a large-scale class A business-centre may temporarily reverse the trend in this particular sub-sector.

Despite dubious short-term investment appeal, the office property sector maintains its long-term strong fundamentals, such as lack and low quality of supply. Kyiv currently stands at 430sqm of office space per 1,000 residents, which is less than 25% of the amount available in Warsaw, and only 12% of it is of A class quality.

Retail Segment

Retail was the first property sector that entered the recovery phase in 2009 and remained the top performer throughout 2010. Rents have increased on average by 13%, reaching the level of 2007. Vacancy narrowed to 3.5% on average and zero in successful shopping centers, resembling the pre-crisis levels. This came as a result of slack supply and strengthening demand from tenants, which were resuming their expansion on the back of growing consumer spending in the country. In 2010, new retail space was represented only by the 2nd phase of Sky Mall shopping mall (part of Arricano project) of 45,500sqm – the lowest volume since 2006. At the same time, despite negative expectations, only a few brands left the Ukrainian market in 2009-2010, while a number of new tenants (inter alia Massimo Dutti, New Look, Topshop, River Island, Claire's, Leroy Merlin) entered the local market, adding to the growing demand for retail space.

The widening deficit of quality retail property will continue to characterize the market in 2011-2012, leading to further improvement of retail market indicators. This potential, in conjunction with the vast local consumer market of 46m people is making retail property the most attractive sector for large foreign and local real estate investors. Not by accident, three out of four large investment transactions in 2010 took place in the retail property sector.

Residential Segment

The residential property market demonstrated clear signs of recovery during 2010, but unlike the retail segment, still has a long way to go to return to its pre-crisis conditions. The number of transactions in Kyiv increased by 46% as compared to 2009, mainly at the account of the secondary market, but was still 50% below the 2007 results. On the primary market the increase of pre-sales was recorded only in a handful of projects developed by few strong market players. Price deterioration was replaced by marginal price increase although in absolute levels prices remain 30-40% below the 2007 level.

Although mortgages stayed largely unavailable, the Hryvnia interest rates decreased substantially from 22-25% to 15%, approaching the pre-crisis levels (12-14%) and starting to make mortgages affordable to the buyers. Assuming that the costs of funds for banks will continue to decline during 2011, mortgage lending should start driving the demand for residential space up. With weak construction activity in the market (new stock in Kyiv still 40% below 2008 level) and low levels of investment into the sector, we see strong reasons to expect price recovery to continue in 2011-2012.

Chris Kamtsios
Senior Partner and Managing Director
Dragon Capital Partners Ltd.

Project Overview

Arricano

The Arricano portfolio, consisting of 5 international quality shopping malls, is unique for the Ukrainian market where both professional retail space and specialised retail developers are highly scarce.

Having successfully raised USD60m of equity capital, Arricano continues to make progress on the execution of the call option to acquire the 50% plus 1 share it does not own in Sky Mall. This process has been delayed by certain ongoing legal proceedings and is expected to be completed in the course of the next 2-3 months.

Following the share capital increase, the Company's stake in Arricano decreased to 16.7%, reflecting the post-money valuation of Arricano of USD180m.

Arricano is also currently in discussions with a bulge bracket investment bank regarding a USD30m financing in the form of a convertible loan. It is planning to complete its portfolio projects by 2013 and to have an IPO in 2012 in order to attract financing for development of new pipeline projects.

Riviera Villas

Riviera Villas is an exclusive residence club development built with modern environmentally friendly technology due to set a new standard for suburban living in Ukraine. The Company has committed USD15.8m to the development for a 58.2% shareholding of which USD13.1m has been invested to date. The project is expected to complete in 2013 with the development of up to 64 homes in 4 phases.

Recent progress:

Utilities are on the site and waterfront infrastructure completed.

Construction of the first 3 homes on "Dream-Street" completed. 13 more homes are under construction.

Riviera Villas was named 'Best elite gated community in Kiev'.

<http://r-v.com.ua/>

Green Hills

Green Hills is the first North American style gated community in Ukraine offering an authentic, country lifestyle, in 16.2 ha surrounded by natural beauty only 6 miles from Kiev. The Company has committed USD19.1m to the development for a 100% shareholding of which USD18.2m has been invested to date. The project is expected to complete in 2014-2015 with the development of up to 178 homes in 4 phases.

Recent progress:

All infrastructure is in place, which differentiates Green Hills from peer projects.
20 homes pre-sold since sales campaign started July 2009.
Roads and utilities completed for 2 phases
Green Hills was voted 'Best business class community in Kiev'.
<http://green-hills.com.ua>

Henryland Group

The Henryland Group represents a series of investments in retail property across a number of locations in Ukraine with an aggregate gross lettable area of 103,000 m². The Company has committed USD14.7m to the developments for a 38% shareholding of which USD14.0m has been invested to date. The project is expected to complete in 2013-2014.

Recent progress:

Kremenchuk, Lutsk and Odesa - operational.

Vinnitsia and Mykolaiv - positive Conclusions of State Expertise Authority received.

Bila Tserkva – project documentation approved.

Avenue Shopping Centre

The Avenue Shopping Mall is an investment in 50% of the project foreseeing construction of a shopping mall in Kyiv with an aggregate gross lettable area of 26,300 m². The Company has committed USD10.8m to the development for a 50% shareholding of which USD1.5m has been invested to date. At the end of 2009 Company reduced its shareholding in the project to 18.7% withdrawing USD5 million due to certain delays on the part of the local partner in this project. The company still has an option to increase its shareholding to 50%. No current estimate of completion date.

Recent progress:

Project design documentation completed and approved by Kyiv Architectural Administration.

Construction permit pending.

Glangate Group

The Glangate Group represents a series of investments in retail property across a number of locations in Ukraine with an aggregate gross lettable area of 45,500 m². The Company has committed USD12.5m to the developments for a 100% shareholding of which USD10.6m has been invested to date. The project is expected to complete in 2013-2014.

Recent progress:

Kremenchuk - design documentation completed and approved by State Expertise .

Rivne - land plot consolidated and partially rezoned

Landbank

The Company's land bank is located in the suburbs of Kyiv and covers 570 ha of land. The Company has committed USD130.75m to the development for an 85% shareholding of which USD124.1 has been invested to date

Recent progress:

82% of land consolidated

The company is set to make a profit on a premium from converting the existing zoning of the land to allow construction of residential and commercial facilities.

Obolon Residential Towers

Obolon residential towers is a new residential and commercial development situated in a 1.07ha land plot in a high profile district of Kyiv. The development will have a sales area of 37,600 m², excluding parking, consisting primarily of residential accommodation. The Company has committed USD20.7m to the development for a 100% shareholding of which USD19.2m has been invested to date. The project is expected to complete in 2015-2016 with the development in 3 phases.

Recent progress:

Project design documentation completed and approved by State Expertise

Façade and commercial premises designed by Benoy (UK)

Demolishment of the existing building planned for 3Q 2011

Sadok Vyshnevy

Sadok Vyshnevy is a 1.6 ha development in the Kiev suburbs comprising 38 residences. The Company has invested USD 13.1m out of a total commitment of USD 13.2m for a 100% shareholding.

Recent progress:

All homes commissioned.

Utilities are on the site.

Individual property acts received for each of the properties.

Consolidated and Parent Company Statements of Financial Position (as at 31 December 2010)

	<i>Note</i>	Consolidated 2010	Parent Company 2010	Consolidated 2009	Parent Company 2009
<i>(in thousands of USD)</i>					
Assets					
Non-current assets					
Investment properties	4	76,589	2	68,831	2
Prepayments for land	5	124,094	-	121,487	-
Investments in subsidiaries		-	6,545	-	6,544
Investments in associates	6	46,653	42,293	14,184	11,102
Long-term loans receivable	7	2,110	-	2,702	-
Property and equipment		41	-	63	-
Intangible assets		31	18	45	28
Total non-current assets		249,518	48,858	207,312	17,676
Current assets					
Inventories	8	12,237	-	12,242	-
Loans to Group companies	10	-	258,353	-	217,887
Short-term loans receivable	7	346	-	-	-
Trade and other receivables	9	1,514	353	2,862	770
VAT recoverable		358	-	214	-
Prepaid income tax		52	-	16	-
Financial Instruments (call option)	6	2,637	-	2,437	-
Cash and cash equivalents	11	44,915	23,736	86,195	80,595
Total current assets		62,059	282,442	103,966	299,252
Total assets		311,577	331,300	311,278	316,928

	<i>Note</i>	Consolidated 2010	Parent Company 2010	Consolidated 2009	Parent Company 2009
<i>(in thousands of USD)</i>					
Equity and Liabilities					
Equity	<i>12</i>				
Share capital		2,354	2,354	2,354	2,354
Share premium		282,077	282,077	282,077	282,077
Retained earnings		12,404	44,298	10,029	30,097
Total equity attributable to equity holders of the Parent Company		296,835	328,729	294,460	314,528
Non-controlling interest		(1,058)	-	(563)	-
Total equity		295,777	328,729	293,897	314,528
Non-current liabilities					
Deferred tax liabilities	<i>14</i>	11,926	-	14,832	-
Total non-current liabilities		11,926	-	14,832	-
Current liabilities					
Trade and other payables	<i>15</i>	3,870	2,571	2,537	2,400
Income tax payable		4	-	12	-
Total current liabilities		3,874	2,571	2,549	2,400
Total liabilities		15,800	2,571	17,381	2,400
Total equity and liabilities		311,577	331,300	311,278	316,928

These consolidated and Parent Company financial statements were approved by management on 18 April 2011 and were signed on its behalf by:

Chairman of the board
Non-executive director

Aloysius Johannes Van der Heijden
Fredrik Svinhufvud

Consolidated and Parent Company Statements of Comprehensive Income (for the year ended 31 December 2010)

		2010		2009	
		Consolidated	Parent Company	Consolidated	Parent Company
	<i>Note</i>				
<i>(in thousands of USD)</i>					
Rental income from investment property		503	-	652	-
(Loss) profit from sales of investment property		(89)	668	(45)	341
Profit (loss) on revaluation of investment properties	4	491	-	(1,814)	-
Write-down of trading property to net realizable value		(10)	-	(465)	-
Management fee	16	(4,519)	(4,519)	(4,485)	(4,485)
Administrative expenses	18	(2,252)	(657)	(1,589)	(646)
Other income		-	-	3	-
Other expenses		(68)	-	(26)	(86)
Loss from operating activities		(5,944)	(4,508)	(7,769)	(4,876)
Gain on disposal of subsidiaries		-	-	125	-
Gain on acquisition of associate	6	15,640	-	-	-
Loss from reduction of shareholding in associate	6	(13,512)	-	-	-
Recovery (impairment) of investments		-	1,191	-	(2,898)
Net finance income	19	1,607	17,508	887	15,740
Share of the profit (loss) of associates	6	341	-	(1,935)	-
(Loss) profit before income tax		(1,868)	14,191	(8,692)	7,966
Income tax benefit (expense)	14	3,738	-	(272)	-
Net profit (loss) and total comprehensive income (loss) for the period		1,870	14,191	(8,964)	7,966
Attributable to:					
Equity holders of the Parent Company		2,365	14,191	(8,415)	7,966
Non-controlling interest		(495)	-	(549)	-
Net profit (loss) and total comprehensive income (loss) for the period		1,870	14,191	(8,964)	7,966
Earnings (loss) per share					
Basic earnings (loss) per share (in USD)	21	0.02	0.12	(0.07)	0.06
Diluted earnings (loss) per share (in USD)	21	0.02	0.12	(0.07)	0.06

Consolidated and Parent Company Statements of Cash Flows (for the year ended 31 December 2010)

	2010		2009	
	Consolidated	Parent Company	Consolidated	Parent Company
<i>(in thousands of USD)</i>				
Cash flows from operating activities				
(Loss) profit before income tax	(1,868)	14,191	(8,692)	7,966
<i>Adjustments for:</i>				
Write-down of trading property to net realizable value	10	-	465	-
Gain on disposal of subsidiary	-	-	(125)	-
Gain on acquisition of associate	6 (15,640)	-	-	-
Loss from reduction of shareholding in associate	6 13,512	-	-	86
(Recovery) impairment of investments	-	(1,191)	-	2,898
(Gain) loss on revaluation of investment properties	4 (491)	-	1,814	-
Depreciation	37	10	10	-
Share of the (profit) loss of associates	6 (341)	-	1,935	-
Net finance income	19 (1,607)	(17,508)	(887)	(15,740)
Operating cash flows before changes in working capital	(6,388)	(4,498)	(5,480)	(4,790)
Change in inventories	(5)	-	(12,637)	-
Change in trade and other receivables	1,955	345	(512)	(395)
Change in loans to Group companies	-	(22,955)	-	(7,704)
Change in trade and other payables	333	171	405	(98)
Share-based payments	17 10	10	15	15
Income tax paid	(48)	-	(29)	-
Cash flows used in operating activities	(4,143)	(26,927)	(18,238)	(12,972)

		2010		2009	
		Consolidated	Parent Company	Consolidated	Parent Company
	<i>Note</i>				
<i>(in thousands of USD)</i>					
<i>Cash flows from investing activities</i>					
Interest received		1,456	69	641	439
Acquisition and development of investment property	4	(4,431)	-	(4,599)	(2)
Acquisition of property, equipment and intangible assets		(1)	-	(35)	(9)
Prepayments for land	5	(3,607)	-	(3,547)	-
Loans granted		(737)	-	(1,300)	-
Repayment of loans		202			
Acquisition of joint venture, net of cash acquired		-	-	-	(110)
Investments in subsidiaries		-	(1)	-	-
Proceeds from reduction of shareholding in joint venture, net of cash out-flow	6	-	-	2,416	-
Investments in associates	6	(30,000)	(30,000)	-	-
Cash flows (used in) from investing activities		(37,118)	(29,932)	(6,424)	318
<i>Cash flows from financing activities</i>					
Purchase of own shares		-	-	(10,364)	(10,364)
Cash flows used in financing activities		-	-	(10,364)	(10,364)
Net decrease in cash and cash equivalents		(41,261)	(56,859)	(35,026)	(23,018)
Cash and cash equivalents at 1 January		86,195	80,595	121,216	103,534
Effect of the foreign exchange fluctuation on cash balances		(19)	-	5	79
Cash and cash equivalents at 31 December		44,915	23,736	86,195	80,595

Consolidated and Parent Company Statements of Changes in Equity (for the year ended 31 December 2010)

Consolidated

	<u>Attributable to equity holders of the Parent Company</u>				Non- controlling interest	Total
	Share capital	Share premium	Retained earnings	Total		
<i>(In thousands of USD)</i>						
Balances at 1 January 2009	2,668	292,127	18,429	313,224	-	313,224
Total comprehensive loss for the period						
Net loss	-	-	(8,415)	(8,415)	(549)	(8,964)
Total comprehensive loss for the period	-	-	(8,415)	(8,415)	(549)	(8,964)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Own shares acquired	(314)	(10,050)	-	(10,364)	-	(10,364)
Share-based compensation	-	-	15	15	-	15
Total contributions by and distributions to owners	(314)	(10,050)	15	(10,349)	-	(10,349)
Changes in ownership interests in subsidiaries that do not result in a loss of control						
Acquisition of non-controlling interest	-	-	-	-	(14)	(14)
Total changes in ownership interests in subsidiaries	-	-	-	-	(14)	(14)
Total transactions with owners	(314)	(10,050)	15	(10,349)	(14)	(10,363)
Balances at 31 December 2009	2,354	282,077	10,029	294,460	(563)	293,897

	<u>Attributable to equity holders of the Parent Company</u>					
	Share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total
<i>(In thousands of USD)</i>						
Balances at 1 January 2010	2,354	282,077	10,029	294,460	(563)	293,897
Total comprehensive loss for the period						
Net profit (loss)	-	-	2,365	2,365	(495)	1,870
Total comprehensive income (loss) for the period	-	-	2,365	2,365	(495)	1,870
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based compensation	-	-	10	10	-	10
Total contributions by and distributions to owners	-	-	10	10	-	10
Balances at 31 December 2010	2,354	282,077	12,404	296,835	(1,058)	295,777

Parent Company

	Share capital	Share premium	Retained earnings	Total
<i>(In thousands of USD)</i>				
Balances at 1 January 2009	2,668	292,127	22,116	316,911
Total comprehensive income for the period				
Net profit	-	-	7,966	7,966
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Total comprehensive income for the period	-	-	7,966	7,966
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Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Own shares acquired	(314)	(10,050)	-	(10,364)
Share-based compensation	-	-	15	15
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Total contributions by and distributions to owners	(314)	(10,050)	15	(10,349)
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Balances at 31 December 2009	2,354	282,077	30,097	314,528
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	Share capital	Share premium	Retained earnings	Total
<i>(In thousands of USD)</i>				
Balances at 1 January 2010	2,354	282,077	30,097	314,528
Total comprehensive income for the period				
Net profit	-	-	14,191	14,191
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	-	-	14,191	14,191
	<hr/>	<hr/>	<hr/>	<hr/>
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Share-based compensation	-	-	10	10
	<hr/>	<hr/>	<hr/>	<hr/>
Total contributions by and distributions to owners	-	-	10	10
	<hr/>	<hr/>	<hr/>	<hr/>
Balances at 31 December 2010	2,354	282,077	44,298	328,729
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 2010 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group’s interest in associates.

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

(b) Business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically 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.

The impact of such differences on the operations and financial position may be significant. In addition, the effect of future developments on the financial position and the ability of others to continue to transact with the Group cannot presently be determined. The consolidated financial statements therefore may not include all adjustments that might ultimately result from these adverse conditions.

As Ukraine’s economic recovery continues, the real estate market has begun to strengthen and display less volatility. This has resulted in, among other things, a higher level of capital market funding, higher liquidity levels across the Ukrainian and international banking sector, and lower interest rates.

Management believes it is taking all necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

2 Basis of preparation

(a) Statement of compliance

These consolidated and Parent Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The consolidated and Parent Company financial statements are prepared on the historical cost basis except for investment property, and financial instruments which are carried at fair value.

(c) Functional and presentation currency

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

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

Management believes that the most appropriate functional and presentation currency for all consolidated entities and these consolidated financial statements is US dollars. All funds raised by the Parent Company are in US dollars, and all project developments are based on US dollars. Deposits and prepayments are also in US dollars. All financial information presented in US dollars is rounded to the nearest thousand.

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

(d) Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with 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 and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

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

- note 4 - valuation of investment property
- note 17 - measurement of share-based payments
- notes 3(d) and 3(h) classification between investment property and inventories

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

No changes in accounting policies were made in 2010 as a result of adoption of new accounting standards.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

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

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

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

Consolidated subsidiaries include the following:

Name	Country of incorporation	Cost		% of ownership	
		2010	2009	2010	2009
Bi Dolyna Development LLC	Ukraine	28	9	100%	100%
EF Nova Oselya LLC	Ukraine	48	48	100%	100%
Glangate LTD	Cyprus	2	1	100%	100%
Grand Development LLC	(2) Ukraine	-	21	-	100%
J Komfort Neruhomist LLC	Ukraine	1,096	9	100%	100%
Korona Development LLC	Ukraine	1,134	48	100%	100%
Landsphere LTD	Cyprus	3	3	95%	95%
Landzone LTD	Cyprus	6,503	6,503	100%	100%
Linkdell LTD	Cyprus	3	3	100%	100%
Linkrose LTD	Cyprus	3	3	100%	100%
Mountcrest LTD	Cyprus	64	64	100%	100%
OJSC "Dom byta "Obolon"	Ukraine	16,470	16,470	98%	98%
Riverscope LTD	Cyprus	3	3	95%	95%
Startide LTD	Cyprus	3	3	100%	100%
Ukrainian Development Holding LTD	Cyprus	1	46	100%	100%
Ukrainian Properties LTD	Cyprus	1	1	100%	100%
Noviy Region LLC	Ukraine	4,507	4,507	100%	100%
Rivnobud LLC	(1) Ukraine	4,471	-	100%	-
Commercial project LLC	(1) Ukraine	1	-	100%	-
SC Riviera Villas LLC	(3) Ukraine	-	-	100%	-

(1) – assets acquisition (see note 4)

(2) – special purpose entity

(3) – newly established subsidiary

(ii) Special purpose entities

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

(iii) Associates

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

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

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

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

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

(iv) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic 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 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 entity is accounted for in accordance with the accounting policy for goodwill arising on the acquisition as described in note 3(f)(i).

As at 31 December 2009 the Group has no joint ventures. As at 31 December 2008 the Group had the following joint ventures: Hindale LTD (Cyprus) and Promtek LLC (Ukraine).

(v) Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing these 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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

(ii) Foreign operations

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

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

Loans and receivables comprise the following classes of assets: trade and other receivables as presented in note 9, loans receivable as presented in note 7, loans to Group companies as presented in note 10 and cash and cash equivalents as presented in note 11.

Cash and cash equivalents

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

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

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

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

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

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

Other financial liabilities comprise trade and other payables as presented in note 15.

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

(iii) Share capital

Ordinary shares

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

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

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

(iv) Derivative financial instruments

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

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

(d) Investment properties

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

Investment properties principally comprise freehold land, leasehold land and investment properties held for future redevelopment. Leasehold of land under operating lease is classified and accounted for as investment property when the definition of investment property is met. Under investment property accounting, the right to use the land is measured at fair value and the obligation to pay rentals is accounted for as a finance lease.

(i) Initial measurement and recognition

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

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

(ii) Subsequent measurement

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

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

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

Investment properties are 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 profit or loss.

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.

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

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

(e) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct 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 and equipment.

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

(ii) Reclassification to investment property

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

(iii) Subsequent costs

The cost of replacing a component of an item of property and equipment is 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 carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter

of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

- | | |
|--------------------------|-----------|
| • vehicles and equipment | 5-7 years |
| • fixture and fittings | 3 years |

(f) Intangible assets

(i) Goodwill

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

Initial measurement and recognition

The Group measures goodwill at the acquisition date as:

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

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

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

Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. In case of investment properties comprising leasehold land, when determining the carrying amount of investment property under the fair value model, the carrying amount effectively includes the finance lease liability and is presented on a net basis.

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

(h) Inventories

Inventories are measured at the lower of cost and net 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.

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

(i) Impairment

(i) Non-derivative financial assets

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

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

Loans and receivables and held-to-maturity investment securities

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

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

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

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

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

(j) Share-based payments

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

(k) Provisions

A provision is 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. The unwinding of the discount is recognised as finance cost.

(l) Rental income from investment property

Rental income from investment property is recognized in profit or loss on a straight-line basis over the time of the lease.

(m) Lease payments

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

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

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

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

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

(n) Finance income and costs

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

Finance costs comprise interest expense on borrowings and the unwinding of the discount on provisions.

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

(o) Income tax expense

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

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

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

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

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

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

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

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

(p) Earnings per share

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

(q) Segment reporting

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

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

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. 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.

- Amendment to International Financial Reporting Standard IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes

will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- Amendment to International Financial Reporting Standard IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with International Financial Reporting Standard IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011.

4 Investment properties and property under construction

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

<i>(in thousands of USD)</i>	Freehold land	Leasehold land	Total
At 1 January 2009	28,678	44,106	72,784
Assets acquisition*	-	6,018	6,018
Construction	2,742	1,857	4,599
Disposal of subsidiary and joint venture (Construction)	-	(850)	(850)
Disposal of subsidiary and joint venture (Investment property)**	-	(11,459)	(11,459)
Disposal of investment property	(447)	-	(447)
Fair value gain (loss) on revaluation	137	(1,951)	(1,814)
At 31 December 2009	31,110	37,721	68,831
Assets acquisition***	5,352	-	5,352
Construction	2,277	1,051	3,328
Disposal of investment property	(1,413)	-	(1,413)
Fair value gain (loss) on revaluation	(337)	828	491
At 31 December 2010	36,989	39,600	76,589

*During the year ended 31 December 2009 the Group recognized the acquisition of subsidiary Novvy Region LLC as an acquisition of assets since the entity had no operations or business activities.

**During the year ended 31 December 2009 the Group sold its subsidiary Tradecom Inco LLC and decreased its stake in joint ventures Hindale Ltd and Promtek LLC. After the decrease in ownership in Hindale Ltd and Promtek LLC they are accounted for as associates.

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

The property is classified in accordance to the intention of management for its future use. The time point when the intention of the management is finalized is the date of start of construction. When construction starts, freehold land, leasehold land and investment properties held for future redevelopment are reclassified into investment property under development (IAS 40) or inventories (IAS 2) in accordance with the intention to use.

Management engaged registered independent appraiser CB Richard Ellis LLC, 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.

The estimation of fair value is made using a net present value calculation based on certain assumptions, the most important of which as at 31 December 2010 are as follows:

- monthly rental rates which were based on current rental rates ranging from USD 19 to USD 40 per sq.m.
- development costs based on current construction prices
- discount rates -10%
- developers profit ranging from – 20% to 25%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

As at 31 December 2009 respective assumptions were as follows:

- monthly rental rates which were based on current rental rates ranging from USD 10 to USD 45 per sq.m.
- development costs based on current construction prices
- discount rates ranging from 18% to 20% p.a.
- developers profit – 10.0-20.0%
- all relevant licenses and permits, to the extent not yet received, will be obtained in accordance with the timetables as set out in the investment project plans.

Sensitivity

If rental rates are 1% less than those used in valuation model, the fair value of investment properties as at 31 December 2010 would be USD 851 thousand lower (2009: USD 1,453 thousand). If rental rates are 1% higher, then the fair value of investment properties as at 31 December 2010 would be USD 1,029 thousand higher (2009: USD 1,453 thousand).

If development costs are 5% higher than those used in the valuation model, the fair value of investment properties as at 31 December 2010 would be USD 5,166 thousand lower (2009: USD 3,655 thousand). If development costs are 5% less, then the fair value of investment properties as at 31 December 2010 would be USD 5,366 thousand higher (2009: USD 3,655 thousand).

If the discount rate applied is 1% higher than that used in the valuation model, the fair value of investment properties as at 31 December 2010 would be USD 2,129 thousand lower (2009: USD

2,189 thousand). If the discount rate is 1% less, then the fair value of investment properties as at 31 December 2010 would be USD 2,424 thousand higher (2009: USD 2,189 thousand).

5 Prepayments for land

In 2008 the Group made a prepayment of USD 1,000 thousand for a freehold interest in a 6.14 hectares land plot located in Rivne through purchasing 99.99% of Rivnobud LLC (Glangate project). In 2010 an additional prepayment of USD 2,529 thousand was made with regard to this land plot. As at 31 December 2010 the total amount of these prepayments of USD 3,529 thousand was settled though receiving ownership over the land plot. As at 31 December 2010 according to the share purchase agreement the Group still has an obligation of USD 971 thousand which will be paid to the seller when proper zoning of the whole land plot will be completed.

During 2010 the Group made several prepayments for land acquisition totaling USD 3,607 thousand (land bank project)

As a result of these transactions the total prepayments for land increased from USD 121,487 thousand as at 31 December 2009 to USD 124,094 thousand as at 31 December 2010.

The prepayments made for the land bank are secured by the relevant pledge of the land plots as per the table below.

In December 2008 the Group entered into the following pledge agreements to secure prepayments for land. During 2009 and 2010 several amendments to the agreements were signed to increase the assigned value of the collateral in conformity with prepayments made. The main conditions of the agreements are as follows:

Date of signing	Pledgor	Collateral	Amount of prepayment for land	Assigned value of the collateral
<i>(In thousands of USD)</i>				
24 December 2008	K Zatyshna Domivka LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 85.5 hectares located in the Kyiv region.	16,575	16,500
25 December 2008	Land Investments LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 191.5 hectares located in the Kyiv region.	54,500	54,500
25 December 2008	Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 156.0 hectares located in the Kyiv region.	53,019	53,019
			124,094	124,019

This table summarizes the amount of prepayment secured by collateral rather than the fair value of the collateral itself.

6 Investments in associates

The Group has the following investments in associates as at 31 December 2010:

Name	Country	Ownership/Voting	
		2010	2009
Henryland Group Ltd.	British Virgin Islands	38.00%	38.00%
Hindale Ltd.	Cyprus	18.77%	18.77%
Arricano Group Ltd.	Cyprus	16.67%	-

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

	Ownership	Total assets	Total liabilities	Revenues	Profit/(loss)
<i>(in thousands of USD)</i>					
2009					
Henryland Group Ltd.	38.00%	34,763	5,235	2,926	(5,392)
Hindale Ltd.	18.77%	21,520	5,735	-	607
		<u>56,283</u>	<u>10,970</u>	<u>2,926</u>	<u>(4,785)</u>
2010					
Henryland Group Ltd.	38.00%	38,611	6,261	3,265	5,778
Hindale Ltd.	18.77%	20,380	3,318	-	640
Arricano Group Ltd.	16.67%	463,209	276,297	14,466	43,009
		<u>522,200</u>	<u>285,876</u>	<u>17,731</u>	<u>49,427</u>

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

The share capital of Hindale Ltd was decreased by 1,539 ordinary shares held by the Group. In return, the Group received USD 5,000 thousand and an option to repurchase the 1,539 ordinary shares of Hindale Ltd for USD 5,000 thousand in accordance with the shareholders agreement. Because the fair value of 1,539 shares of Hindale Ltd as at 31 December 2009 was estimated to be USD 7,437 thousand, the Group determined the excess of the fair value of the shares over the purchase price of USD 2,437 thousand to be the fair value of the call option and recognized it in the consolidated statement of financial position as at 31 December 2009. The option has no expiry date.

During the year ended 31 December 2010 the estimated fair value of the call option increased by USD 200 thousand due to an increase in the estimated fair value of investment properties relating to the Komarova project. The gain on revaluation of the call option is recognized in profit or loss in net financial income.

On 10 September 2010 the Parent company entered into a Shareholders Agreement (SHA) with Expert Capital SA (currently - Retail Real Estate SA) and Arricano Trading Limited (Arricano) and has

acquired a 35% interest in Arricano, through the issue of 1,077 new shares by Arricano for a consideration of USD 30,000 thousand payable by the Parent company in cash. Arricano is a leading developer of upscale shopping centres in Ukraine, and the investment of USD 30,000 thousand is earmarked to fund further development of shopping centres and to repay certain existing Arricano debt. Arricano holds a 100% interest in four shopping centres across Ukraine and a shareholding of 50% minus one share in the Sky Mall shopping centre in Kyiv (the Sky Mall project). In relation to the Sky Mall project, Arricano has entered into a call option agreement with its local partner in this project, whereby it can acquire the remaining shareholding of 50% plus one share at a pre-agreed valuation of USD 51,000 – 56,000 thousand, depending on the timing (the Sky Mall Call Option). The period of execution of the Sky Mall Call Option is from 15 November 2010 to 15 March 2011.

Since Arricano effectively controls the Sky Mall project through its 50% minus one share ownership and call option to acquire the remaining 50% plus one share, it consolidates Sky Mall project in its financial statements.

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

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

	Total recognized fair values	Group's share of recognized fair values
<i>(in thousands of USD)</i>		
Identifiable net assets attributable to Arricano	51,741	18,109
Loans receivable planned to be assigned to Arricano	113,879	39,858
Maximum consideration for call option adjusted for equity attributable to non-controlling interest	(35,220)	(12,327)
	<hr/>	<hr/>
Identifiable net assets	130,400	45,460
	<hr/> <hr/>	<hr/> <hr/>
Gain on acquisition (negative goodwill)		15,640
Consideration paid		30,000
		<hr/> <hr/>

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

	Total recognized carrying values
<i>(in thousands of USD)</i>	
Net assets attributable to Arricano	108,253
Loans receivable planned to be assigned to Arricano	113,879
Maximum consideration for call option adjusted for equity attributable to non-controlling interest	(35,220)
	<hr/>
Net assets	186,912
	<hr/> <hr/>

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

Reduction of shareholding in associate

Expert Capital SA (the 65% shareholder in Arricano immediately after the Parent Company acquired a 35% stake in Arricano) and the Parent company also agreed to consider a further capital increase into Arricano of USD 60,000 thousand to finance the Sky Mall Call Option and partial completion of the development of the second stage of the InterMall shopping centre (Simferopol) and repay certain indebtedness. During November 2010 USD 60,000 thousand was paid by Expert Capital SA in return for 3,385 newly issued ordinary shares in Arricano. Having obtained these funds, Arricano initiated the execution of the Sky Mall Call Option, which is currently delayed due to certain ongoing legal proceedings with the local partner, who owns 50% plus one share in the Sky Mall project. Arricano expects to be able to execute the Sky Mall Call Option in the first half of 2011. Following the share capital increase and issue of new shares, the stake of the Parent Company decreased to 16.67% .

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

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

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

Significant influence

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

The Group has the right to appoint one (out of two) executive directors to the Board of Directors of Arricano. In addition, one non-executive director is appointed by both shareholders unanimously. Pursuant to the SHA, the management structure of Arricano provides that significant operating decisions require consent by all parties.

7 Loans receivable

Included in long-term loans receivable is a loan provided by the Group to Commercial Construction LLC at a 2% fixed interest rate. The purpose of the loan was to finance construction of show-case houses in the cottage communities Riviera Villas and Green Hills. As at 31 December 2010 long-term loans receivable due from Commercial Construction LLC totals USD 1,439 thousand, including accrued interest of USD 64 thousand (2009: USD 2,456 thousand, including accrued interest of USD 52 thousand). In January 2010 a portion of the loan to Commercial Construction LLC totaling USD 841 thousand (including accrued interest of USD 33 thousand) attributable to the project Riviera Villas was assigned to Intendancy Ltd, the Group's partner in project Riviera Villas, provided that Intendancy Ltd pay to the Group USD 841 thousand. The aforesaid consideration shall be paid to the Group within 180 banking days from the date of registration of the assigned loan contract with the National Bank of Ukraine. As at 31 December 2010 this balance is included in trade and other receivables. In addition, during 2010 Commercial Construction LLC received a new tranche of USD 87 thousand and repaid USD 202 thousand.

The remaining part of long-term loans receivable represents a loan provided by the Group to Kalinovka Construction LLC at a 10% fixed interest rate. The primary purpose of this loan is to finance the construction of show-case houses in the project Riviera Villas. As at 31 December 2010 the total outstanding amount of this loan is USD 671 thousand, including accrued interest of USD 21 thousand (31 December 2009: nil).

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

8 Inventories

Inventories as at 31 December are as follows:

	Consolidated 2010	Parent Company 2010	Consolidated 2009	Parent Company 2009
<i>(in thousands of USD)</i>				
Trading property	12,200	-	12,210	-
Other inventory	36	-	31	-
Construction materials	1	-	1	-
Total	12,237	-	12,242	-

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

As at 31 December 2010 trading property of USD 12,200 thousand represents the net realizable value as defined by the independent appraiser. The revaluation loss for the year ended 2010 of USD 10 thousand (2009: USD 465 thousand) was recognized in profit or loss.

9 Trade and other receivables

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
	2010	2010	2009	2009
<i>(in thousands of USD)</i>				
Other receivables	1,316	334	2,246	687
Prepayments made	134	19	462	17
Accrued interest	64	-	154	66
	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,514	353	2,862	770
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Loans due from Group companies

The loans due from Group companies are denominated in USD, unsecured, interest bearing (5%-12%) and repayable on demand.

11 Cash and cash equivalents

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
	2010	2010	2009	2009
<i>(in thousands of USD)</i>				
Bank balances	16,415	236	806	491
Call deposits	28,500	23,500	85,389	80,104
	<hr/>	<hr/>	<hr/>	<hr/>
Total	44,915	23,736	86,195	80,595
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Bank balances				
B	15,556	-	315	-
BB+	623	-	-	-
AA-	236	236	491	491
	<u>16,415</u>	<u>236</u>	<u>806</u>	<u>491</u>
Call deposits				
AA	16,500	16,500	80,104	80,104
AA-	12,000	7,000	5,110	-
not rated	-	-	175	-
	<u>28,500</u>	<u>23,500</u>	<u>85,389</u>	<u>80,104</u>
Total	<u>44,915</u>	<u>23,736</u>	<u>86,195</u>	<u>80,595</u>

12 Equity

Movements in share capital and share premium for the year ended 31 December are as follows:

	Ordinary shares	Amount
<i>(in thousands of USD, except for share numbers)</i>		
<i>Number of shares unless otherwise stated</i>		
Outstanding as at 31 December 2007, fully paid	140,630,300	2,813
Issued during 2008	1,698,416	34
Own shares acquired and cancelled	(8,943,000)	(179)
Outstanding as at 31 December 2008, fully paid	<u>133,385,716</u>	<u>2,668</u>
Own shares acquired and cancelled	(15,669,201)	(314)
Outstanding as at 31 December 2009, fully paid	<u>117,716,515</u>	<u>2,354</u>
Outstanding as at 31 December 2010, fully paid	<u>117,716,515</u>	<u>2,354</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 thousand. In addition 36,630,100 ordinary shares were sold on 29 November 2007 at a price of USD 2.73 per ordinary share, raising gross proceeds of USD 100,000 thousand. The difference between net proceeds per share and par value is recognized as share premium.

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

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

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

13 Finance lease liability

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2010	Interest 2010	Present value of minimum lease payments 2010	Future minimum lease payments 2009	Interest 2009	Present value of minimum lease payments 2009
<i>(in thousands of USD)</i>						
Less than one year	501	500	1	177	177	-
Between one and five years	2,004	2,002	2	710	709	1
More than five years	21,990	18,720	3,270	7,904	7,019	885
	24,495	21,222	3,273	8,791	7,905	886

The imputed finance costs on the liability are based on the Group's incremental borrowing rate in UAH (15.3% p.a., 2009: 20.0%). Because as at the dates of entering the lease agreements the Group had no external borrowings, the incremental borrowing rate was estimated based on market available information.

The finance lease liability comprises the Group's liability for leasehold land, which is presented on a net basis within the carrying amount of investment property (see note 3(g)).

Future minimum lease payments as at 31 December 2010 are based on management's assessment and calculated based on the actual lease payments effective as at 31 December 2010. The future lease payments are subject to review and approval of the municipal authorities and may differ from management's assessment.

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

14 Income tax expense

(a) Income tax expense

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Current tax expense	(4)	-	(30)	-
Deferred income tax benefit (expense)	3,742	-	(242)	-
Total income tax benefit (expense)	3,738	-	(272)	-

Based on legislation enacted in December 2010, on 1 January 2011, a new tax code became effective in Ukraine. Among other changes the new tax code changes the corporate profit tax rates. For 2010 and 2009 a corporate income tax rate of 25% applied. A reduced rate of 23% applies from 1 April 2011 and will gradually decrease further to 21% and 19% in 2012 and 2013, respectively, and from 2014 onwards the tax rate will be fixed at 16%.

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

(b) Reconciliation of effective tax rate

The difference between the total expected income tax (benefit) expenses for the years ended 31 December computed by applying the Ukrainian statutory income tax rate to loss before tax and the reported tax (benefit) expense is as follows:

	2010	%	2009	%
<i>(in thousands of USD)</i>				
Loss before income tax	(1,868)	100	(8,692)	100
Computed expected income tax (benefit) expense at statutory rate	(467)	25	(2,173)	25
Effect of income taxed at lower tax rates	(1,477)	79	(15)	-
Reduction in tax rate	(4,122)	221	-	-
Non-taxable income (income earned by holding companies)	(24)	1	(12)	-
Change in unrecognized temporary differences	1,281	-	(775)	-
Non-deductible expenses	1,071	(126)	3,247	(28)
Effective income tax (benefit) expense	(3,738)	200	272	(3)

(c) Recognized deferred tax liabilities

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

	1 January 2010 liability	Recognized in income	Acquisition of subsidiary	31 December 2010 Liability
<i>(in thousands of USD)</i>				
Investment property	<u>(14,832)</u>	<u>3,742</u>	<u>(836)</u>	<u>(11,926)</u>
Deferred tax liabilities	<u>(14,832)</u>	<u>3,742</u>	<u>(836)</u>	<u>(11,926)</u>

The movement in deferred tax liabilities for the year ended 31 December 2009 is as follows:

	1 January 2009 liability	Recognized in income	Acquisition of subsidiary	Decrease in share in joint venture and disposal of subsidiary	31 December 2009 liability
<i>(in thousands of USD)</i>					
Investment property	<u>(15,929)</u>	<u>(242)</u>	<u>(1,497)</u>	<u>2,836</u>	<u>(14,832)</u>
Tax liabilities	<u>(15,929)</u>	<u>(242)</u>	<u>(1,497)</u>	<u>2,836</u>	<u>(14,832)</u>

(d) Unrecognized deferred tax assets

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

	Consolidated 2010	Parent Company 2010	Consolidated 2009	Parent Company 2009
<i>(in thousands of USD)</i>				
Tax loss carry-forwards	<u>2,092</u>	<u>-</u>	<u>811</u>	<u>-</u>
	<u>2,092</u>	<u>-</u>	<u>811</u>	<u>-</u>

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

15 Trade and other payables

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Management and performance fees	2,301	2,301	2,255	2,255
Other payables and accrued expenses	1,569	270	282	145
Total current liabilities	3,870	2,571	2,537	2,400

16 Management and performance fees

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Management fee	4,519	4,519	4,485	4,485
Total	4,519	4,519	4,485	4,485

Initial Management Agreement

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

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

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

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

The Manager was also entitled to receive an annual performance fee calculated by reference to the increase in the net asset value (NAV) per share over the relevant accounting period. For these purposes NAV was the aggregate of the consolidated non-current and current assets adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued

in accordance with the property valuation policy less its consolidated liabilities (including non-controlling interest and payables related to management fees) provided that, in respect of the Group's first accounting reference period, the opening NAV was equal to the net proceeds of the initial sale of shares.

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

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

Revised Management Agreement

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

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

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

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

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

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

The total management fee for the year ended 31 December 2010 is USD 4,519 thousand (2009: USD 4,485 thousand). No performance fee is applicable based on the results of 2010.

17 Share-based payments

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

On 16 May 2007 the Parent Company entered into the Dragon Capital Partners Warrant Instrument and the Zimmerman Adams International Ltd (ZAI) Warrant Instrument. These warrants entitle Dragon Capital Partners and ZAI to subscribe for such number of ordinary shares as is equal to 5% and 1%, respectively, of publicly issued shares from 1 June 2007 and terminating five years thereafter. The warrants are exercisable at the market price of the shares at the date of grant.

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

	Options granted to Mr. Van der Heijden	Warrants granted to Dragon Capital Partners		Warrants granted to ZAI	Total
Date granted	16 May 2007	16 May 2007	29 November 2007	16 May 2007	
Number of instruments	100,000	5,200,000	1,831,505	1,040,000	8,171,505
Vesting period	1-5 years	Immediately	Immediately	Immediately	
Expiry dates	(1)	16 May 2012	29 November 2012	16 May 2012	
Exercise price	2.00USD	2.00USD	1.30GBP	2.00USD	
Share-based compensation (USD thousand) during 2009	15	-	-	-	15
Share-based compensation (USD thousand) during 2010	10	-	-	-	10

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

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

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

There were no forfeited or exercised options during the years ended 31 December 2010 and 31 December 2009.

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 Partners Ltd Initial share issue	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	0.82	0.82
Share price	2.00	2.00	2.73	2.00
Exercise price	2.00	2.00	2.73	2.00
Expected volatility, percent	33.80	33.80	33.80	33.80
Option life, years	1 - 5	5	5	5
Expected dividends, percent	0.00	0.00	0.00	0.00
Risk free interest rate, percent	6.39	6.39	6.39	6.39

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

Share-based payments recognized for the years ended 31 December are as follows:

	2010	2009
<i>(in thousands of USD)</i>		
Share options granted in 2007:		
Share options (compensation expense)	10	15
Total share-based payments	10	15

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 31 December 2007	0.88	2.16	8,171,505
Exercisable at 31 December 2007	0.88	2.17	8,071,505
Exercisable at 31 December 2008	0.83	2.16	8,081,505
Exercisable at 31 December 2009	0.88	2.01	8,096,505
Exercisable at 31 December 2010	0.71	2.00	8,116,505

18 Administrative expenses

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

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Professional services	774	298	495	303
Advertising	421	18	283	30
Wages and salaries	254	-	206	-
Audit fees	161	121	115	93
Directors' fees	125	125	125	125
Bank charges	27	6	42	21
Insurance	18	18	37	26
Share-based compensation	10	10	15	15
Travel expenses	42	42	6	6
Other	420	19	265	27
	<hr/>	<hr/>	<hr/>	<hr/>
Total administrative expenses	2,252	657	1,589	646
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

19 Net finance income

Net finance income for the year ended 31 December is as follows:

	Consolidated	Parent	Consolidated	Parent
	2010	Company	2009	Company
		2010		2009
<i>(in thousands of USD)</i>				
Interest income on inter-Group loans	-	17,511	-	15,159
Interest income	1,426	3	792	502
Financial instruments (option) gain	200	-	-	-
Currency exchange (loss) gain	(19)	(6)	95	79
	<hr/>	<hr/>	<hr/>	<hr/>
Net financial income	1,607	17,508	887	15,740
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 Contingencies

(a) Litigation

As at 31 December 2010 the land plot leased by Hindale Ltd. relating to project Avenue Shopping Mall on Komarova Avenue, Kyiv, is not cleared of garages and there are a number of law suits relating to this project in which Hindale Ltd. is involved. These law suits and difficulties in obtaining relevant permits may delay the construction works on the land plot. Additionally, taking into account the short term period of the lease of the land plot on which Hindale Ltd. is planning to construct the real estate, Hindale Ltd. may not be able to prolong the lease term at the expiry date of the land lease agreement should the construction works not start before 2012. The Group has won all law suits to date and the management is confident that the Group will prevail in ongoing law suits. Additionally management believes that they will obtain all relevant permits and the construction works will start as planned and that the lease term will be extended if needed without additional material costs and delays. As at 31 December 2010 the Group's effective ownership in the Avenue Shopping Mall project amounts to USD 3,716 thousand (2009: USD 3,970 thousand).

(b) Taxation contingencies

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be 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 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.

(c) Insurance

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

(d) Capital expenditure and other commitments

As at 31 December 2010 outstanding commitments to finance construction of investment properties and other commitments amount to USD 17,913 thousand (2009: USD 22,586 thousand).

21 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based upon the net profit for the year ended 31 December 2010 attributable to the ordinary shareholders of USD 1,870 thousand (2009: net loss of USD 8,964 thousand) and the weighted average number of ordinary shares outstanding calculated as follows:

	2010	2009
<i>(in number of shares weighted during the period outstanding)</i>		
Shares issued on incorporation on 23 February 2007	2	2
Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May 2007	198	198
Shares issued on 1 June 2007	104,000,000	104,000,000
Shares issued on 29 November 2007	36,630,100	36,630,100
Shares issued on 24 April 2008	1,698,416	1,698,416
Own shares buyback announced in 2008 and acquired in 2008 and 2009	(8,943,000)	(8,943,000)
Own shares buyback in 2009	(15,669,201)	(8,869,529)
Weighted average number of shares for the period	117,716,515	124,516,187

Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit for the year ended 31 December 2010 attributable to ordinary shareholders of USD 1,870 thousand (2009: net loss of USD 8,964 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

	31 December 2010	31 December 2009
<i>(in number of shares)</i>		
Weighted average number of shares for the year ended 31 December	117,716,515	124,516,187
Weighted average number of shares for the period (fully diluted)	117,716,515	124,516,187

Because during the year ended 31 December 2010 and 2009 the average market price of ordinary shares was below the exercise price of the share options and warrants these options and warrants have no dilutive effect.

22 Financial risk management

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

(a) Risk management policy

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

(b) Credit risk

When the Group enters into an arrangement exposing it to credit risk, it does so only on the basis of due diligence research and the reputation of the counterparty. As at 31 December 2010 the largest exposures relate to prepayments made under three land acquisition contracts totaling USD 124,094 thousand (31 December 2009: USD 121,487 thousand). This latter risk is mitigated by pledge agreements for corporate rights of the pledger in the entities that own the land to be acquired.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no significant concentration of receivables from a single customer.

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December is as follows:

	Consolidated	Parent Company	Consolidated	Parent Company
	2010	2010	2009	2009
<i>(in thousands of USD)</i>				
Loans receivable	2,456	-	2,702	-
Trade and other receivables	1,514	353	2,862	770
Cash and cash equivalents	44,915	23,736	86,195	80,595
	48,885	24,089	91,759	81,365

(c) Liquidity risk

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

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

	Carrying amount	Contractual cash flows			
		Total	Within one year	2-5 years	More than 5 years
<i>(in thousands of USD)</i>					
Finance lease liability	3,273	45,717	1,001	4,006	40,710
Trade and other payable	3,870	3,870	3,870	-	-
	<u>7,143</u>	<u>49,587</u>	<u>4,871</u>	<u>4,006</u>	<u>40,710</u>

The following are the contractual maturities of financial liabilities, including interest payments as of 31 December 2009:

	Carrying amount	Contractual cash flows			
		Total	Within one year	2-5 years	More than 5 years
<i>(in thousands of USD)</i>					
Finance lease liability	886	16,696	354	1,419	14,923
Trade and other payable	2,537	2,537	2,537	-	-
	<u>3,423</u>	<u>19,233</u>	<u>2,891</u>	<u>1,419</u>	<u>14,923</u>

(d) Interest rate risk

Changes in interest rates impact primarily cash and cash equivalents by changing either their fair value (fixed rate deposits) or their future cash flows (variable rate deposits). 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.

As at 31 December 2010 and 2009 all financial assets and liabilities have fixed interest rates. The Group does not account for fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates as at 31 December 2010 would not affect profit or loss.

(e) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily UAH and EUR. The exposure to foreign currency risk as at 31 December is as follows based on notional amounts:

<i>(in thousands of USD)</i>	2010			2009		
	EUR	GBP	UAH	EUR	GBP	UAH
Current assets						
Cash and cash equivalent	13	2	401	86	1	35
Trade and other receivables	9	-	1,059	-	-	408
Current liabilities						
Trade and other payables	(67)	(11)	-	(29)	(9)	(8)
Net (short) long position	(45)	(9)	1,460	57	(8)	435

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

Currency	2010	2009
EUR	1.3372	1.4338
GBP	1.5545	1.5861
UAH	0.1265	0.1252

As at 31 December 2010 a 10 percent weakening of the US dollar against the UAH would have increased post-tax profit and equity by USD 110 thousand (2009: USD 33 thousand).

As at 31 December 2010 a 10 percent weakening of the US dollar against the GBP would have decreased post-tax profit and equity by USD 1 thousand (2009: USD 1 thousand).

As at 31 December 2010 a 10 percent weakening of the US dollar against the EUR would have decreased post-tax profit and equity by USD 3 thousand (2009: increase by USD 4 thousand).

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

(f) Fair values

Except for long-term loans receivable, 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. As at 31 December 2010 the fair value of loans receivable is USD 2,273 thousand (2009: USD 2,092 thousand).

(g) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved by efficient cash management and constant monitoring of investment projects. With these measures the Group aims for steady profits growth.

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

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

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

23 Related party transactions

(a) Transactions with management and close family members

(i) Key management remuneration

Key management compensation included in the statement of comprehensive income for the year ended 31 December is as follows:

	2010	2009
<i>(in thousands of USD)</i>		
Directors' fees	125	125
Share-based payment expense (options granted)	10	15
Total management remuneration	135	140

(ii) Key management personnel and director transactions

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

	2010		2009	
	Number of shares	Ownership, %	Number of shares	Ownership, %
Aloysius Johannes Van der Heijden	200,000	0.17	200,000	0.17
Tomas Fiala	6,831,500	5.80	6,831,500	5.80
	7,031,500	5.97	7,031,500	5.97

Boris Erenburg, one of the Group's directors, is also an executive of Spinnaker Capital Group, which acquired 14,874,400 shares (12.64%) of the Group during the first and second share issues.

Mr. Rafaël Biosse Duplan, the Group's director until 21 January 2011, is a partner at emerging markets investment specialist, Finisterre Capital LLP, which is authorised and regulated by the Financial Services Authority. Finisterre Capital LLP is involved in managing total return funds, including Finisterre Recovery Fund 1 which currently owns 9,900,000 (8.4%) shares and Finisterre Global Opportunity Master Fund which currently owns 4,369,299 (3.7%) shares of Dragon – Ukrainian Properties and Development Plc.

Mr. Tomas Fiala, one of the Group's directors, is the principal shareholder and managing director of Dragon Capital Group which acquired 6,831,500 shares (5.80%) of the Group during the first and second share issues. Also Tomas Fiala is a director in Dragon Capital Partners which has received 1,698,416 (1.45%) ordinary shares at a price of USD 2.60 per ordinary share to settle 70 % of the Manager's performance fee for 2007 in the amount of USD 4,432 thousand.

(b) Transactions with other related parties

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

	2010		2009	
	Transactions	Balance outstanding	Transactions	Balance outstanding
<i>(in thousands of USD)</i>				
Disposal of subsidiary	-	277	1,620	1,620
Management fee for project management to be paid to Dragon Development	170	33	210	36
Loan issued to Tradecom Inko	-	-	420	420
Expenses to be reimbursed to Manager	50	50	-	-
	<u>220</u>	<u>360</u>	<u>2,250</u>	<u>2,076</u>

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

24 Events subsequent to the reporting date

On 21 January 2011 the Company's Board of Directors has passed a written resolution by which Mr. Rafaël Duplan has resigned as a Company's Director and Mr. Christopher Watson replaced him as a Company's Director. Mr. Watson is the Head of Research at emerging markets investment specialist Finisterre Capital LLP. Mr. Watson does not own any Company's shares as per date of this report.