Dragon
Ukrainian Properties & Development plc

The sky's the limit

Annual Report 2008

Dragon – Ukrainian Properties & Development plc (DUPD) is a real estate investment company, listed on the Alternative Investment Market (AIM) of the London Stock Exchange. Its investment activity focuses exclusively on Ukraine.

Highlights

We have maintained our focus on developing the projects in our portfolio, which at current stage do not require debt financing and, despite a turbulent market environment, have been able to demonstrate strong progress on all of them.

Aloysius Wilhelmus Johannes van der Heijden
Non-Executive Chairman

$308m

Raised at IPO and SPP

Launched onto AIM in June 2007, DUPD remains the largest Ukrainian real estate IPO. Our investor base includes some of the world's leading investment banks and prominent institutional investors.

$86.2m

Uncommitted cash as at end of 2008

Our market capitalisation at 31 December 2008 remains significantly below uncommitted cash.

$219.9m

Committed funds as at end of 2008

Since our IPO we have committed USD 219.9 million across 10 investments, four of which were concluded during 2008.

£3.9m

(USD 6.4 million) – spent for the share buy back

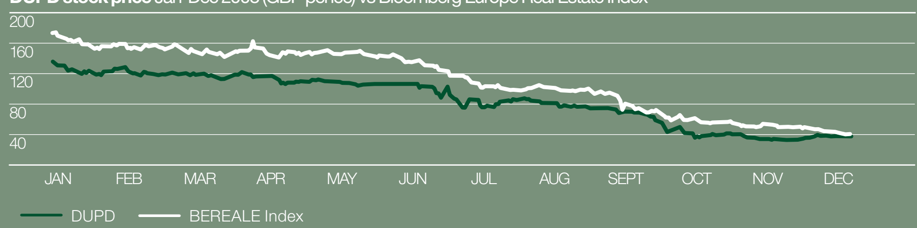
Since August, 2008 the Company has pursued the effort of buying back its shares at a substantial discount to NAV in order to enhance NAV per share and the overall return to its shareholders. 6.3% of shares have been bought and subsequently cancelled through the share buy-back program.

$121.2m

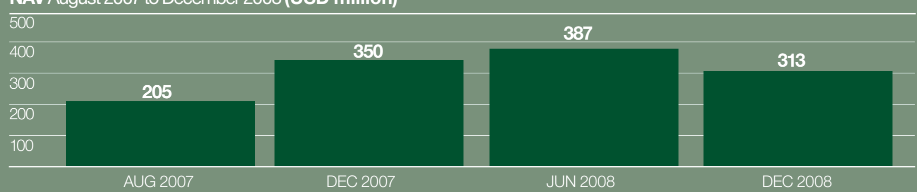
Cash balance as at end of 2008

Our strong cash balance and absence of leverage provides a strong base for further development of our portfolio projects.

DUPD stock price Jan-Dec 2008 (GBP pence) vs Bloomberg Europe Real Estate Index



NAV August 2007 to December 2008 **(USD million)**



About Ukraine

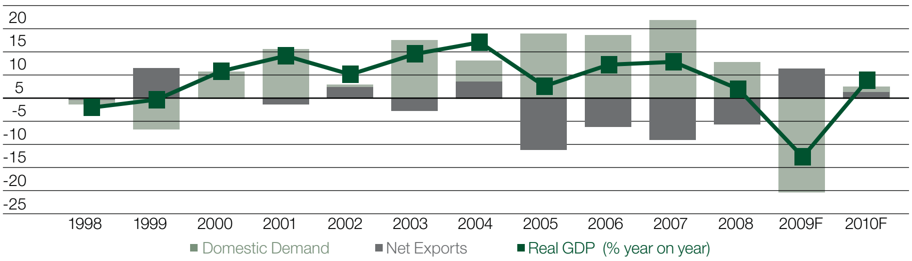
Looking beyond the current downturn, the Ukrainian real estate market remains hugely undersupplied with quality real estate, lagging far behind Western Europe and CEE countries.

About Ukraine

The state of the global economy proved to be a key factor of Ukraine's economic performance in 2008, despite the fact that the economy expanded at a healthy rate of 6.7% year on year during the first three quarters. The economy's trade openness and reliance on raw material exports did it a disservice amid the global downturn in 4Q of 2008 as plummeting commodity prices and foreign demand weakness put the export-oriented steel, machine-building and chemical sectors on a steep downward track. But although industry-related service sectors also decelerated quickly, full-year real GDP remained in positive territory, at +2.1% year on year.

A steep fall in prices for steel and other export commodities, resulting from much weaker external demand, has hit exporters and intensified devaluation pressure on local currency, which lost 37% of its value vis-à-vis USD during 4Q of 2008. Such hryvnia devaluation is set to produce a profound impact on the economy by improving Ukraine's trade balance and accelerating economic recovery. The currency depreciation will obviously not save the economy from a recession as long as foreign demand remains depressed. However, it will help major exports-oriented sectors to stay afloat during the global downturn and give domestic demand-oriented sectors the opportunity to benefit from import substitution. Through its impact on trade flows, a weaker hryvnia will provide a boost to real GDP as higher net exports will partly offset the anticipated drop in domestic demand. In this respect, the expected breakdown of contributions to real GDP growth in 2009 looks similar to the one observed during the 1998-1999 crisis.

Contributions to Real Ukrainian GDP Growth: Demand (%)



Source: State Statistics Committee, Dragon Capital estimate

In another similarity to the aftermath of 1998-99, Ukraine can realistically recover fast after the global upturn begins. If most of the depreciation-related price gains are preserved through this year, most analysts believe that the Ukrainian economy will be able to advance by 4% year on year in 2010 and return to its previous growth pattern, estimated in the region of 5%, in the following years.

Furthermore, the current crisis could facilitate the implementation of necessary reforms in monetary and fiscal policy, which remain a precondition to the IMF financing currently being agreed to with the Ukrainian government. Such policy changes, coupled with announced government support of energy efficient technologies and infrastructure projects, should contribute to the country's increasing competitiveness and sustainability of growth, once global markets start showing signs of recovery.

Ukrainian Real Estate Market

Although the Ukrainian real estate market has never been highly leveraged, it has undoubtedly been influenced by the current financial crisis. Affected by the American subprime mortgage crisis and domestic bank liquidity squeeze, the Ukrainian real estate market switched from staggering growth seen in the previous several years to a slump, beginning in 2H of 2008. Global investments in real estate fell by 41% year on year in 1H of 08, according to Jones Lang La Salle, while investments in Ukrainian real estate have declined by 34% year on year over the same period according to Colliers International.

During 2H of 2008 the market has experienced significant decline of real estate values, as a result of yield appreciation, declining rentals, growing vacancy rates for commercial properties and decreasing demand for residential real estate, which was additionally hammered by banks cutting down availability of mortgage financing. Limited market activity in 2H of 08 provides few reliable estimates as to actual yields and prices for commercial real estate in Ukraine over the period. Consensus estimates end-2008 yields on high-quality commercial properties at 14-15%, up from 10% on average in 2H of 2007-1H of 2008 due to a sharp contraction in demand. A similar situation was observed on the residential property market as banks' reluctance to issue new mortgages discouraged buyers and sharply cut the number of transactions, pushing end-2008 prices in Kyiv down to USD 2,400/m^2 (-20% year on year and 30% below the end-1H of 2008 peak of USD 3,400/m^2).

The economic recession is expected to exert further downward pressure on land and property prices as well as rent levels for commercial properties throughout 2009, despite the fact that most of the foreign retailers currently present in the country such as Metro, Auchan, Billa, Leroy Merlin, Praktiker, etc., have confirmed their plans to stay and continue to expand their retail networks throughout the country.

Growing yields and declining rents, coupled with current liquidity issues for some of the local developers, are likely to create exceptional opportunities for active, hands-on investors to acquire quality assets at prime locations at distressed valuations. This is confirmed by the fact that such renowned property investors as Meyer Bergman, UNIQA Group and Akron Group have recently announced completed transactions on the market and announced their plans to pursue further acquisitions.

About DUPD

The investment objective of the company is to provide shareholders with strong capital growth by taking on existing opportunities in the Ukrainian real estate sector.

$208m
Raised at IPO

$100m
Raised in secondary private placing

$313.2m
NAV as at 31 December 2008

Looking beyond the current downturn, the Ukrainian real estate market remains hugely undersupplied with quality real estate, lagging far behind Western Europe and CEE countries. This continues to be the main growth driver for the Ukrainian real estate market in the long run. As the economy enters the recovery stage, there will be substantially better opportunities available in Ukraine, than in more developed markets.

Management of DUPD

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

DCP has been appointed to provide advisory, investment management and monitoring services to DUPD in respect of property development and acquisition opportunities in Ukraine. DCP is a 100% subsidiary of Dragon Asset Management, the asset management arm of Dragon Capital, Ukraine's leading investment bank, offering a full range of services to institutional, corporate and private clients.

Established in 2000, Dragon Capital is an independent partnership controlled by management, with a minority stake held by Goldman Sachs. Financial magazine Euromoney has recognised Dragon Capital as the best Equity House in Ukraine in 2002 and 2004-2008.

All investment opportunities identified by the Manager are considered by the Board of Directors, comprising of independent directors and representatives of the largest shareholders of DUPD with extensive experience in property investment, development and management as well as general investment, company law and administration.

Our Investment Strategy

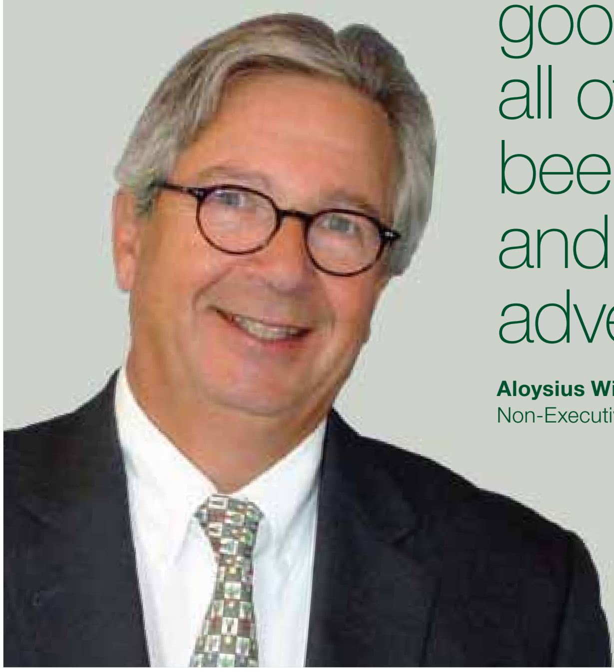
While our initial focus remains on the development of new, and the re-development of existing, properties in the retail, office and residential sectors, in the current market environment we are more focused on opportunities to acquire completed assets at distressed valuations.

Our primary target is the acquisition of income generating properties in the office and retail segments, while we also selectively assess opportunities on acquisitions of completed residential properties.

Our investment and development activities focus on Kyiv and Kyiv region and on major regional cities throughout Ukraine with significant populations. Investment opportunities in commercial real estate in smaller, yet important, cities in Ukraine may be exploited by the Company under the right circumstances.

We assume a proactive approach to every investment project in our portfolio. Our in-depth local knowledge and hands-on management team allow us to identify off-market investment opportunities, while securing progress on our existing project portfolio.

Chairman's Statement

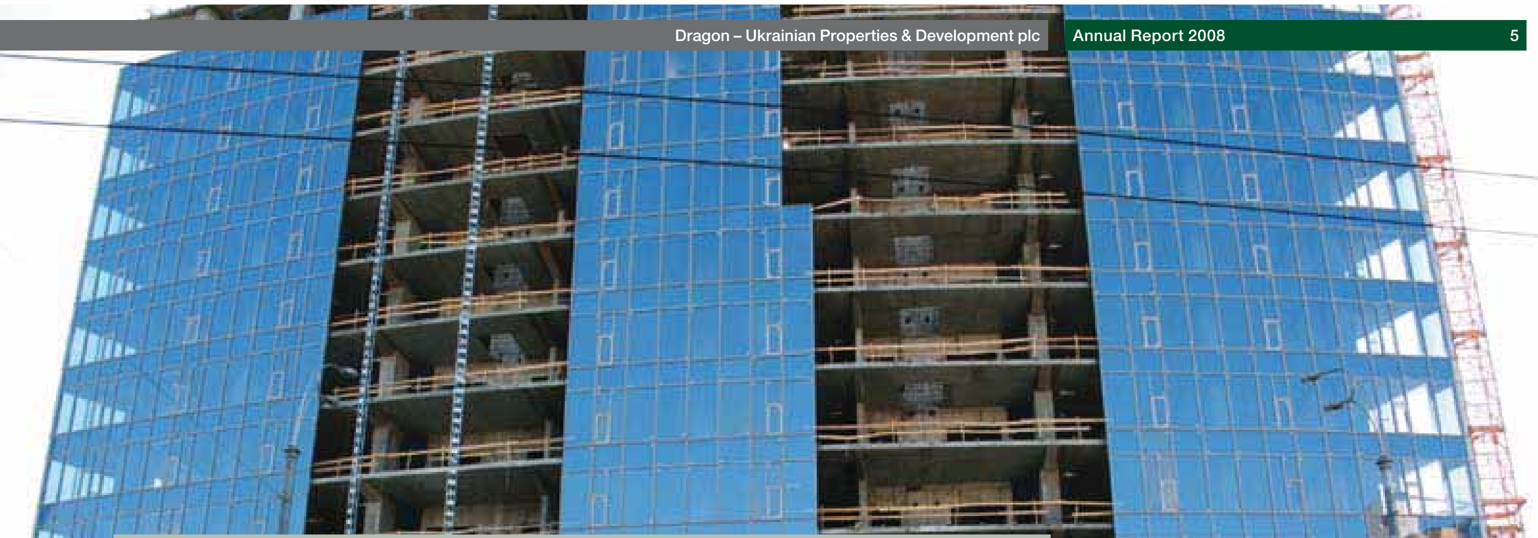


Despite the unprecedented economic downturn and consequent rapid decline of property values, we have made good operational progress on all of our projects and have been successful in managing and minimising the impact of adverse market conditions.

Aloysius Wilhelmus Johannes van der Heijden
Non-Executive Chairman

I am pleased to present the annual results of Dragon-Ukrainian Properties & Development plc for the year ended 31 December 2008. Despite the unprecedented economic downturn and consequent rapid decline of property values, we have made good operational progress on all of our projects and have been successful in managing and minimising the impact of adverse market conditions. Throughout the year, our management effort was focused on risk management and tight control of capital expenditures, coupled with constant review of performance of each project, and our drive towards long-term value creation makes me believe that we are well positioned to cope with the current market downturn. Our initial decision to refrain from leveraging our development projects prior to exhausting the equity capital assigned on each project, coupled with our strong cash balance, clearly distinguishes us among our competitors and allows us to ultimately take advantage of market opportunities as they arise.

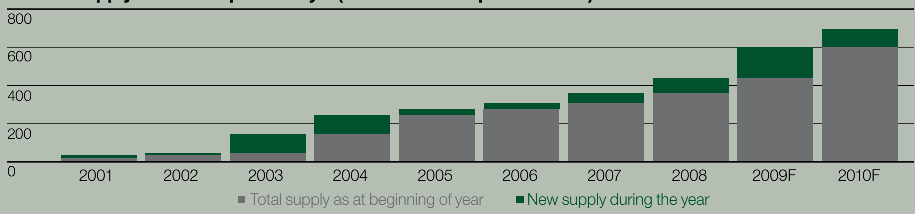
In line with the rest of the sector, our financial results are, of course, significantly impacted by the general economic situation which has resulted in significant asset value writedowns throughout the industry. During the year our NAV per share has decreased by 4.5% to USD 2.35 per share. The Company's loss before taxes for the year amounted to USD 62 million, which is stated after accounting for changes in the value of our investment properties. Excluding these, our operating profit before tax for the year would be USD 8.9 million.



Office Property Market Outlook:
Pipeline gets thinner as demand weakens

Accelerated expansion will be followed by marginal growth due to decrease in rentals and lower absorption, keeping the total stock low.

Annual Supply of Office Space in Kyiv (thousands of square metres)



Source: Colliers International

In accordance with the decisions of Shareholders meetings dated 31 July 2008 and 1 December 2008, the Company has been actively pursuing a share buy-back program, starting from August 2008. As of 31 December 2008 we have successfully acquired 8,943,000 shares or 6.3% of the Company's share capital for a total consideration of GBP 3.9 million (USD 6.4 million). All of the acquired shares were cancelled immediately post acquisition. It is our strong belief that such effort resulted in creating substantial long-term value for our shareholders as all of the aforementioned acquisitions were made at a substantial discount to the Company's NAV, and in several instances even at a discount to our cash balance.

Given the difficult situation in the Ukrainian banking sector and absence of project financing products, we feel privileged to have no gearing at the moment and to possess adequate equity capital to continue funding the soft development costs throughout 2009 and construction works thereafter. At the same time our focus is on cash flow management and preservation of the Company's cash rich position. We are constantly reviewing our cost base and strategy on every project and believe we maintain a lean operation. During the year we have reduced our commitments on existing projects by USD 18.3 million, which allowed us to have a strong cash balance of USD 121.2 million as of year end. It is the intention of the Board to continue exercising tight control over our capital and operational expenditures.

Outlook

Clearly we see the immediate future for our industry, and Ukrainian real estate market in particular, as rather challenging. At the same time, such a market environment creates opportunities, of which we could take advantage. We expect our hands-on management together with local presence and market expertise to give us an opportunity to assess the possibility of acquiring existing quality properties at distressed valuations. At the same time we continue to build value on our existing assets through proactive management and constant reassessment of our strategy for each particular project. Based on the progress to date, I am confident that the permitting and development processes on existing projects will continue as planned, thus creating additional value for our shareholders. In my opinion, our continued focus on efficient cash flow management coupled with the quality of our asset base puts us into an advantageous position to weather the storm throughout the financial crisis and outperform our peers in the mid-term.

Aloysius Wilhelmus Johannes van der Heijden
Non-Executive Chairman

Investment Manager's Report

With the strong cash position and zero debt burden, DUPD is well positioned to operate through the market down-cycle with high confidence.

Chris Kamtsios
Senior Partner & Managing Director
Dragon Capital Partners Ltd

Overview

Having committed USD 199.5 million into seven projects during 2007, we have succeeded in achieving substantial progress in each of the investments in the course of 2008. The pace of new investments was slower than in the previous year, as we have anticipated an abrupt compression of property values and increasing call for liquidity post 3Q of 2008. Being conservative in these market conditions allowed DUPD to boast the strongest cash balance among its local market peers of USD 121.2 million, as of year end.

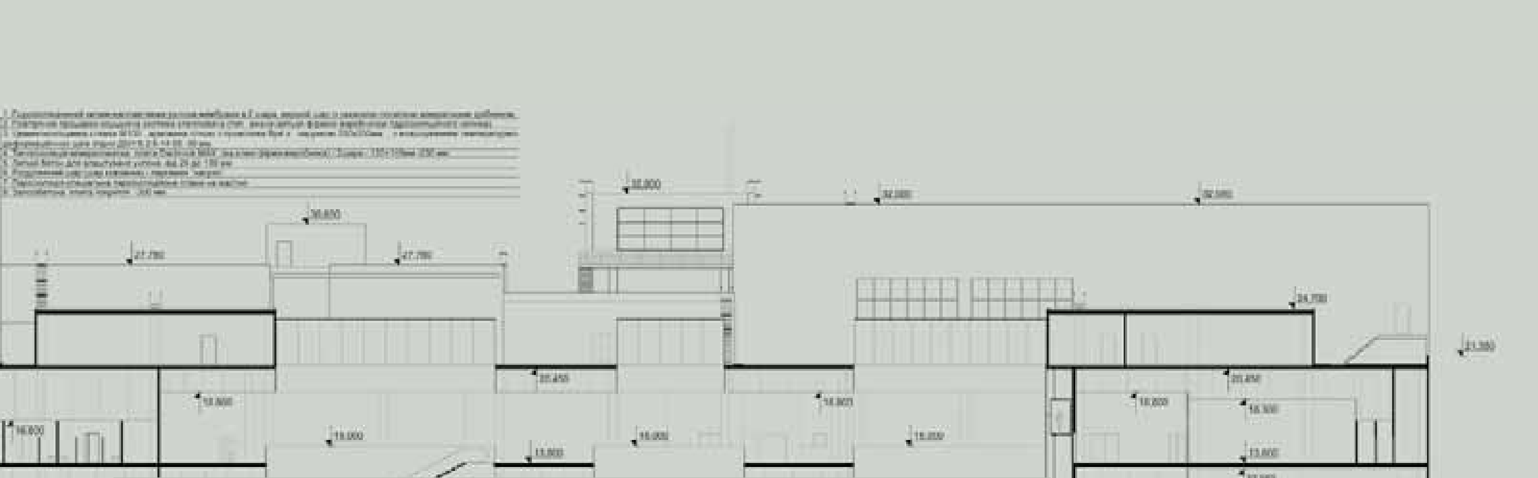
In the course of 2008, mainly during the first half of the year, total commitments grew from USD 199.5 million to USD 219.9 million, as the company increased its stake in Obolon by 21.4% (to 98.2%) and Riviera Villas by 7.9% (to 58.2%), as well as committed USD 13 million to the development of Green Hills . During the second half of the year, DUPD added one new commitment of USD 12.5 million into Glangate Ltd, which aims at building three retail complexes in Ukrainian regions, increased its planned investment into Henryland by USD 2.7 million and committed USD 5.3 million into the soft development of Obolon project. In the 4Q of 2008, DUPD reviewed and subsequently reduced its commitments on certain projects in an effort to optimise its investment program and reserve additional capital funds. More specifically, the Company decreased its equity commitments into the land bank by USD 10 million, cutting the size of the target land holdings from 675 to 620 hectares, and into Green Hills project by USD 8.3 million, limiting this investment to the provision of utilities and the construction of a "dream-street" comprising of eight homes.

The Company's NAV decreased by 10.6% (to USD 313.2 million) over 2008, as gains from new investments were offset by year-end revaluation losses, which reflected the general contraction of real estate values in the market in the second half of 2008.

With the strong cash position and zero debt burden, DUPD is well positioned to operate through the market down-cycle with high confidence. The Company is also able to consider acquisitions of high income-yielding properties at very attractive prices, taking advantage of substantial decrease of real estate values in Ukraine.

Market Overview

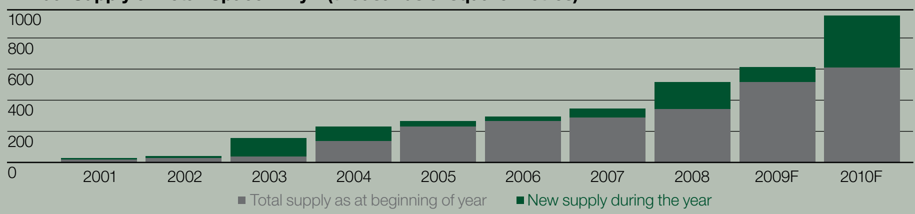
The global financial crisis had a dramatic impact on the Ukrainian real estate market, causing its first downturn since 2001, after seven consecutive years of unprecedented growth. The market was most affected by the absence of bank debt and mortgage financing, which drove the majority of construction sites to halt, and by substantial fall in demand across all market sectors, suddenly changing the established and strongly pronounced "landlord's market" into a "tenant's market". With lower rents and growing cost of capital, only a handful of professional and conservatively evaluated developments from the announced pipeline have maintained commercial viability. As most local market players are struggling to meet their financial liabilities, the area of opportunities under these new circumstances for the few remaining financially strong investors has swayed from large greenfield developments to the acquisition of income-generating properties from distressed developers.



Retail Property Market Outlook:
Lower development activity delays long-term saturation

After 8 years of growth, the volume of retail space in Kyiv shopping centres remains inadequate with no signs of saturation in the near term. Scheduled deliveries for 2008 have seen major delays while the majority of projects announced in the 2009-10 pipeline have been halted.

Annual Supply of Retail Space in Kyiv (thousands of square metres)



Source: Colliers International

Unexpectedly, 2008 records the largest number of investment transactions completed in the history of the local market across all key segments. Kyiv traditionally accounted for the majority of the deals, although the volume of regional transactions has picked up as well. The key deals included the sale of Aladdin shopping centre to Meyer Bergman and Alta Centre to VK Development, sale of East Gate Logistics warehouse complex by GLD Invest to Akron Group, and barter sale of Horizon Office Towers by ISA Prime Development to a local buyer – all in Kyiv, as well as the acquisition of City Centre shopping mall in Mykolaiv by Uniqa Real Estate AG. All transactions took place in the first 9 months of 2008 reflecting yields of 10-12%. In the autumn, the effects of the world financial crisis on Ukraine became evident and the volume of foreign investments into the country decreased dramatically, driving yields upwards. The effect on real estate values was aggravated by weaker demand from tenants leading to rent reduction and increasing vacancies. As a result, there were no major investment transactions in the last months of 2008, with sellers psychologically not ready to accept yields above 13-14%, and buyers offering yields of 16-20%, based on renegotiated rentals. As the liquidity squeeze for local developers is aggravating, the number of distressed sellers in the market is likely to grow as we go into 2009, resulting in further yield expansion.

Office Segment

In the office segment, the new supply reached 200,000 m^2 exceeding the result of the previous year and bringing the total stock of professional space to 985,000 m^2. The structure of the new delivery is equal to the composition of the market's total stock with the majority (over 60%) comprising of class B/B+ properties.

The share of class A space in the market remains as low as 16%, with local developers only starting implementing international quality standards. The rents were growing in the first three quarters, reaching USD 75-80 per m^2 for class A space, while falling sharply by end of the year to USD 50-60 per m^2, expected to reach USD 30-40 in the 1st half of 2009.

Retail Segment

In the retail segment, only 78,300 m^2 of new leasable space was commissioned in Kyiv within 2 new, mid-size shopping and entertainment centres (Kvadrat Avrora and Blockbuster) and three expansions of the existing retail schemes (Karavan, Bilshovyk and Materik), bringing the total retail stock to 435,000 m^2. The regional markets picked up more, delivering the total of 250,000 m^2 in major cities of Ukraine. Despite the small size of the market in total, the rental rates for retail space have contracted by 20-30% in the end of 2008 as a result of falling retail turnover and curtailment of expansion plans by most retailers. Decrease of rents is expected to reach 30-50% with recovery starting no later than 2010, primarily in Kyiv, supported by expected delays in the delivery of pipelined stock.

Industrial Segment

In the industrial segment, the adverse effects of the financial crisis were most clearly seen, as developers have commissioned a record of 380,000 m^2 of new quality premises in 2008, more than doubling the total warehouse stock near Kyiv. This became possible as historically the industrial segment has seen fewer delays, larger volumes and higher quality of deliveries than the other real estate sectors, which is explained by the wide presence of foreign players. Capitalising on fast retail and business activity expansion in Ukraine, rents grew to USD 10-11 per m^2 in the first half of 2008, but subsequently were pushed down to USD 7-9 per m^2 in the second half by the sudden fall in demand.

Residential Segment

In the residential sector of Kyiv, despite the crisis, new stock in 2008 reached 1.4 million m^2, marginally exceeding last year's volume. The demand for new apartments was falling in the second half of 2008 as mortgage financing from stringent Ukrainian banks was becoming increasingly unavailable, pushing the prices for apartments down by 15-20%. Residential developers, Ukrainian companies mostly, had to freeze their projects as they were no longer able to finance construction through pre-sales. Nevertheless, the market remains attractive for investment in the longer term due to the insignificant volume of new apartments in Ukraine in the absolute terms, with the recovery clearly tied to the resumption of local mortgage lending.

During 2009, further weakening of demand across all segments is seen to continue, exerting downward pressure on real estate values. In the longer term, with the unchanged market fundamentals representing very low supply, feeble competition and a large (46 million) population, there are reasons to expect that as the effects of the credit squeeze on Ukraine weakens, the local real estate market will promptly recover and resume its historical growth pattern.

Chris Kamtsios
Senior Partner & Managing Director

DUPD's Projects

Our portfolio of projects is well-diversified across all segments of real estate except the industrial segment. All developments depict the highest standards in construction, engineering and architecture.

Henryland Group Limited

Sector:	Retail
Location:	Regional centres of Ukraine
Land Title:	Freehold/Leasehold
Gross Area:	ca. 90,000 m^2
Total Commitment:	USD 14,736,000
Shareholding:	38%
Estimated Completion Date:	2011-2012

Current status:

Two shopping centres in Lutsk and Kremenchuk constructed, three shopping centres in Mykolaiv, Odesa, Bila Tserkva under design development, anchor tenant secured for all locations.

Glangate

Sector:	Retail
Location:	Sevastopol, Kremenchuk, Rivne
Land Title:	Freehold /Leasehold
Gross Area:	ca. 65,000 m^2
Total Commitment:	USD 12,500,000
Shareholding:	100%
Estimated Completion Date:	2011-2012

Current status:

Sevastopol: project documentation developed, being approved; anchor tenant secured; Kremenchuk: land plot acquired; Rivne: land plot secured.

Avenue Shopping Mall (Komarova Shopping Centre)

Sector:	Retail
Location:	Kyiv
Land Title:	Leasehold
Land Area:	1.2 hectares
Gross Area:	52,012.3 m^2
Total Commitment:	USD 10,750,000
Shareholding:	50%+1 share
Estimated Completion Date:	Late-2011

Current status:

Masterplan approved, hypermarket (5,566 m^2) and fitness centre (5,700 m^2) units pre-leased, project documentation developed, being approved.

Sadok Vyshnevy*

Sector:	Residential
Location:	Kyiv suburbs
Land Title:	Freehold
Gross Area:	8,880 m^2
Total Commitment:	USD 13,181,082
Shareholding:	100%
Estimated Completion Date:	Completed

Current status:

All residences completed, starting sales campaign.

* Land Bank valued at cost, Sadok Vyshnevy not revalued as it was acquired in February 2009

Riviera Villas (Pine Forest Riverside Estates)

Sector:	Residential
Location:	Kyiv suburbs
Land Title:	Freehold
Land Area:	7.33 hectares
Total Commitment:	USD 10,600,000
Shareholding:	58.2%
Estimated Completion Date:	2011-2012

Current status:

Masterplan approved, home designs selected, utilities connected, fencing completed, three show-case homes constructed.

Obolon Mixed-use

Sector:	Residential, Office, Retail
Location:	Kyiv
Land Title:	Leasehold
Gross Area:	69,684 m^2
Total Commitment:	USD 21,773,881
Shareholding:	100%
Estimated Completion Date:	2012

Current status:

Permit for land rezoning obtained, concept developed, permit for design works obtained, project documentation is being developed.

Green Hills (Vita Poshtova)

Sector:	Residential
Location:	Kyiv Region
Land Title:	Freehold
Gross Area:	32,700 m^2
Total Commitment:	USD 18,743,936
Shareholding:	100%
Estimated Completion Date:	2013

Current status:

Masterplan approved, home designs selected, utilities secured, four show-case homes constructed, four more under construction.

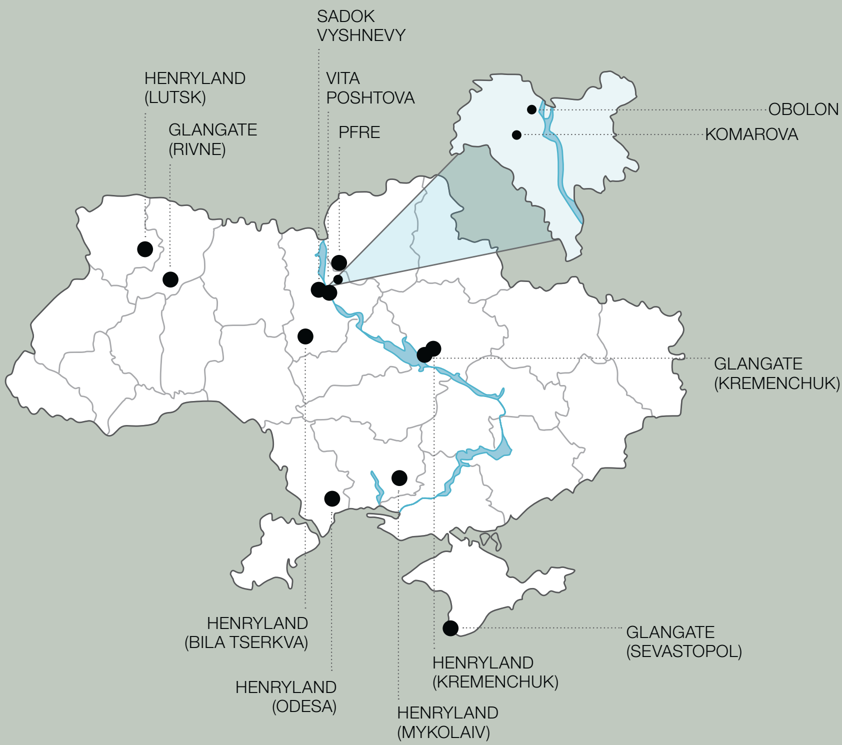
Land Bank*

Sector:	Land, Mixed-use
Location:	Suburbs of Kyiv
Land Title:	Freehold
Gross Area:	620 hectares
Total Commitment:	USD 130,750,000
Shareholding:	85%
Estimated Completion Date:	2009

Current status:

Over 80% acquired, rezoning started.

DUPD's Locations



Board of Directors

The Board comprises directors with extensive experience in property investment, development and management, as well as investment, company law and administration.

To this end, the Board has established an audit committee. The audit committee is responsible for ensuring that the financial performance of the Company is properly monitored, controlled and reported on. The committee will also meet the auditors and review reports from the auditors relating to the Company's accounts and internal control systems. The audit committee is chaired by Mr. Svinhufvud and consist of Mr. Svinhufvud and Mr. van der Heijden. It meets whenever there is business to discuss and at least twice each year.

Aloysius Wilhelmus Johannes van der Heijden
aged 60, Non-Executive Chairman
Mr. van der Heijden has worked in the real estate industry for 29 years, a large part of which he spent as a General Director of Beheer Brouwershoff Amsterdam B.V., a private investment company of Drs. C. van Zadelhoff with a core business in capital investment, predominantly in real estate and also commercial real estate brokerage and advisory services. Currently, he is a non-executive partner of DTZ Zadelhoff (The Netherlands), Supervisory Board member of DTZ Zadelhoff Tie Leung Central & Eastern Europe and N.V. 'Het Havengebouw'.

Fredrik Svinhufvud
aged 54, Non-Executive Director
Fredrik Svinhufvud is currently managing director of Malka Oil AB, a Swedish oil company concentrating on oil and gas production in western Siberia in Russia. Previously he was managing director of Tetra Pak Ukraine for six years until February 2007. Fredrik started in Ukraine as Tetra Pak factory manager in 1995 and was then appointed managing director in 2001. Additionally, he has held several international positions within the oil field services industry, initially with Schlumberger Ltd in South America, Atlas Copco in North America and the Geco Well Services in the North Sea. Later he held positions within sales and marketing in the agriculture supply industry (Trelleborg AB). In March 2006 Fredrik was elected the President of the European Business Association in Ukraine.

Tomas Fiala
aged 34, Non-Executive Director
Mr. Fiala has been the principal shareholder and managing director of Dragon Capital Group, a Kyiv-based investment bank, since April 2000. Mr. Fiala established Dragon Capital as a brokerage and has since grown it into a leading Ukrainian investment house specialising in brokerage, investment banking, securities trading, asset management and private equity investments. Prior to establishing Dragon Capital, Mr. Fiala served as senior executive for five years at Wood & Company, a leading investment bank in the Central Eastern Europe region. Mr. Fiala is currently serving as chairman of the supervisory board of Karlivka Machine-building Plant, Ukraine's leading agricultural equipment producer. He is also a member of the Supervisory Board of Nova Liniya, the largest DIY supermarket chain in Ukraine, Cantik Enterprises Limited, a Ukrainian retail real estate development company, Retail Group, one of the largest food retailers in Ukraine, Ukrinbank as well as KP Media, a leading Ukrainian media holding.

Boris Erenburg
aged 37, Non-Executive Director
Boris Erenburg manages investments for the Spinnaker Capital Group, an emerging markets hedge fund manager with USD 6.5bn under management. Prior to Spinnaker, he co-managed Pactual Electra, a Brazilian middle market private equity firm with USD 160 million in investments, and was a board member of portfolio companies in the technology and business services sectors. He started his career at IFC (World Bank Group) in Washington DC where he structured project and corporate finance transactions in the oil and gas industry, and then in Argentina where he was the deputy representative for the Southern Cone responsible for new business and the investment portfolio in Argentina, Bolivia, Chile, Uruguay and Paraguay.

Rafaël Biosse Duplan
aged 41, Non-Executive Director
Rafaël Biosse Duplan is currently a partner at emerging markets investment specialist Finisterre Capital LLP. Prior to joining Finisterre in February 2005, Mr. Biosse Duplan was a Managing Director and head of the Emerging Markets Group for Lehman Brothers in London. Mr. Biosse Duplan joined Lehman Brothers in 2003, after 12 years with Salomon Brothers (subsequently Citigroup Global Markets). Between 2000 and 2003, he co-ran Emerging Markets origination in London, focusing on Europe, Middle East and Africa. Previously, Mr. Biosse Duplan traded and structured Emerging Market debt at Salomon Brothers/Citigroup for nine years, holding by 1999 a global risk management supervisory function for Emerging Market Distressed Debt and concentrating on credit intensive situations in Russia and Asia. Mr. Biosse Duplan is a graduate from the ESCP Grande École and holds an M.P.A. from the Kennedy School of Government in Harvard.

Directors' Report

The Directors present their annual report and the audited consolidated and Parent Company financial statements of Dragon-Ukrainian Properties & Development plc. (the Company) and its subsidiaries (the Group) as at for the year ended 31 December 2008.

Principal activities

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

The Company was incorporated in the Isle of Man on 23 February 2007. The Company's registered office is Standard Bank House, One Circular Road, Douglas, Isle of Man, IM1 1SB and its principal place of business is Ukraine.

On 1 June 2007 the Company raised USD 208 million through Initial Public Offering on the sub-market of the London Stock Exchange – Alternative Investment Market (AIM). On 29 November 2007 the Company completed a secondary placing on AIM and raised USD 100 million.

Results

The Group made a loss for the year ended 31 December 2008 before taxation of USD 62,039,000, all of which has been transferred to reserves.

Dividend

No interim dividend has been paid during the year ended 31 December 2008.

The Directors do not propose a final dividend for the year ended 31 December 2008.

Directors

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

	Date of appointment
Aloysius Wilhelmus Johannes van der Heijden	10 April 2007
Fredrik Svinhufvud	10 April 2007
Tomas Fiala	26 February 2007
Boris Erenburg	14 September 2007

Directors' interests

The Directors owned shares in the Company as at 31 December are as follows:

	2008		2007	
	Number of shares	Ownership %	Number of shares	Ownership %
Aloysius Wilhelmus Johannes van der Heijden	200,000	0.15	–	–
Tomas Fiala	6,831,500	5.12	6,831,500	4.9

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

Auditors

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

By Order of the Board
Stuart Christian
Company Secretary

8 April 2009

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' Remuneration Report

The Directors have each entered into a letter of appointment governed by English Law. The terms of appointment for each Director are set out below.

Name	Position	Annual Fee	Date of appointment	Notice period
Aloysius Wilhelmus Johannes van der Heijden	Non-Executive Chairman	$75,000 payable quarterly in arrears	10 April 2007	The Director or Company may terminate on 3 month's written notice.

The Company has agreed to reimburse Mr. van der Heijden for reasonably incurred expenses in the course of his duties to the Company.

Name	Position	Annual Fee	Date of appointment	Notice period
Fredrik Svinhufvud	Non-Executive Director	$50,000 payable quarterly in arrears	10 April 2007	The Director or Company may terminate on 3 month's written notice.

The Company has agreed to reimburse Mr. Svinhufvud for reasonably incurred expenses in the course of his duties to the Company.

Name	Position	Annual Fee	Date of appointment	Notice period
Tomas Fiala	Non-Executive Director	No fee	26 February 2007	The Director or Company may terminate on 3 month's written notice.

The Company has, however, agreed to reimburse Mr. Fiala for reasonably incurred expenses in the course of his duties to the Company.

Name	Position	Annual Fee	Date of appointment	Notice period
Boris Erenburg	Non-Executive Director	No fee	14 September 2007	The Director or Company may terminate on 3 month's written notice.

The Company has, however, agreed to reimburse Mr. Erenburg for reasonably incurred expenses in the course of his duties to the Company.

There is no limitation on the aggregate amount of remuneration payable to the Directors under the Articles.

The aggregate amount paid to directors for the period ending 31 December 2008 was equal to USD 112,500. Pursuant to article 96 of Company's Articles of Association each director is entitled for a fee of £ 1,000 each time Director physically attends a meeting of the board in the Isle of Man. The Company also reimbursed all reasonable travel expenses.

There were no other payments being paid to the Directors for the period ending 31 December 2008.

Corporate Governance

Combined Code
The directors recognise the importance of sound corporate governance. The Company has complied, where possible, with the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance. The directors are committed to maintaining the highest standards of corporate governance.

The Board and Board Committees
The Board is comprised of four directors: the Chairman, Aloysius Johannes van der Heijden, and three non-executive directors: Fredrik Svinhufvud, Tomas Fiala and Boris Erenburg. The Chairman holds an option over shares of the Company, as described in the notes to financial statements and in addition to this during the year 2008 has bought in the market 200,000 Company's shares. Save in that respect, the Board considers the Directors (with the exception of Tomas Fiala), to be independent for the purposes of the above-mentioned Corporate Governance Guidelines. The letters of appointment of all directors are available for inspection at the Company's registered office during normal business hours.

The Board meets from time to time as required by the business of the Company but at least once per quarter to take decisions on investment projects and to consider general matters affecting the Company and otherwise as required. It has appointed an audit committee, particulars of which appear hereafter.

An Ad-hoc Business Committee has been established to take decisions on settling outstanding bills of less than USD 10,000 individually less than USD 100,000 collectively per month, which are expected to relate, in the course of the Company's business, to decisions to approve smaller amounts, such as payments to legal advisors for preliminary due diligence, preliminary financial reviews, as well as participation of the Manager in certain industry events like real estate forums/exhibitions. The Ad-hoc Business Committee consists of Tomas Fiala and meets on an ad-hoc basis, whenever there is a need for such a meeting.

The Audit Committee is chaired by Mr. Fredrik Svinhufvud and consists of Mr. Svinhufvud and Mr. van der Heijden. The Audit Committee meets at least twice a year and otherwise on an ad hoc basis as required. The Audit Committee reviews the annual and interim accounts, deals with monitoring the quality of internal controls, ensures that the financial performance of the company is properly monitored and reported on and also ensures proper accounting standards and that the application of the Company's accounting polices are adhered to; meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls. The Company also considers the objectivity and independence of its auditors by a process of assessment and keeps the scope of the non-audit service and non-audit fees under review.

The number of meetings of the full Board, and the Audit Committee attended by each Director during 2008 is set out below.

	Full board meetings (since company's listing at AIM)		Audit Committee	
	Held	Attended	Held	Attended
Aloysius Wilhelmus Johannes van der Heijden	6	6	2	2
Fredrik Svinhufvud	6	5	2	2
Tomas Fiala	6	5	not a member	not a member
Boris Erenburg	6	6	not a member	not a member

Risk Management and Internal Control
Risk management is the responsibility of the Audit Committee, which is responsible to the Board for ensuring that procedures are in place, and are being effectively implemented to identify, evaluate and manage any significant risks faced by the Company.

An outline of major risk factors affecting the Company was described in the admission document and is regularly reviewed by the audit committee for their importance to the Company and for the controls that are in place. The Board, on the advice of the Manager, updates this risk outline as changes arise in the nature of risks and reviews and amends controls that are necessary to mitigate them. The Audit Committee reviews the risk outline and the effectiveness of the risk-modeling undertaken by the Manager on a regular basis.

Relations with shareholders
The board acknowledges that its primary role is to represent and promote the interests of shareholders. The board is accountable to shareholders for the performance and activities of the Company. The board encourages participation at the Annual General Meeting at which a detailed review of the business and objectives of the Company are given to shareholders. The company proposes separate resolutions at the AGM for each substantially separate issue, and there is always an individual resolution relating to the annual report and financial statements. The Chairman of the Board and the Managing Director of the Manager meet major shareholders several times a year, and financial results are reported to them every six months. Investors have also access to current information on the Company though its website, www.dragon-upd.com, which is constantly updated.

Report of the Independent Auditors to the members of Dragon-Ukrainian Properties & Development plc

We have audited the Group and Parent Company financial statements of Dragon-Ukrainian Properties & Development plc for the year ended 31 December 2008 which comprise the Group and Company Income Statement, Group and Company Balance Sheet, the Group and Company Statement of Changes in Equity, the Group and Company Statement of Cash Flow and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Group's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable company law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Isle of Man Companies Act 1931 to 2004. We also report to you if, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Group is not disclosed.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

Report of the Independent Auditors to the members of Dragon-Ukrainian Properties & Development plc

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group and Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Act 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit LLC
Chartered Accountants

8 April 2009

Consolidated and Parent Company Balance Sheets

as at 31 December

(In thousands of USD)	Note	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Assets					
Non-current assets					
Investment properties	6	70,225	–	105,796	–
Property under construction	6	2,559	–	–	–
Prepayments for land	7	122,440	–	96,000	–
Investments in subsidiaries		–	6,520	–	19
Investments in associate	8	13,151	14,000	16,209	8,000
Long-term loan	9	1,378	–	–	–
Property and equipment		63	–	28	–
Intangible assets		24	19	–	–
Total non-current assets		**209,840**	**20,539**	**218,033**	**8,019**
Current assets					
Inventories	10	70	–	168	–
Loans to Group companies		–	195,024	–	213,649
Trade and other receivables	11	757	312	4,839	375
Prepaid income tax		16	–	–	–
Cash and cash equivalents	12	121,216	103,534	178,350	89,652
Total current assets		**122,059**	**298,870**	**183,357**	**303,676**
Total assets		**331,899**	**319,409**	**401,390**	**311,695**
Equity and liabilities					
Equity	13				
Share capital		2,668	2,668	2,813	2,813
Share premium		292,127	292,127	293,994	293,994
Retained earnings		18,429	22,116	53,139	4,846
Total equity attributable to equity holders of the Parent Company		**313,224**	**316,911**	**349,946**	**301,653**
Minority interests		**–**	**–**	**16,216**	**–**
Total equity		**313,224**	**316,911**	**366,162**	**301,653**
Non-current liabilities					
Deferred tax liabilities	14	15,929	–	25,051	–
Total non-current liabilities		**15,929**	**–**	**25,051**	**–**
Current liabilities					
Trade and other payables	15	2,735	2,498	10,163	10,042
Income tax payable		11	–	14	–
Total current liabilities		**2,746**	**2,498**	**10,177**	**10,042**
Total liabilities		**18,675**	**2,498**	**35,228**	**10,042**
Total equity and liabilities		**331,899**	**319,409**	**401,390**	**311,695**

These consolidated and Parent Company balance sheets were approved by management on 8 April 2009 and were signed on its behalf by:

Aloysius Wilhelmus Johannes van der Heijden
Chairman of the board

Fredrik Svinhufvud
Non-Executive director

The consolidated and Parent Company balance sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 39.

Consolidated and Parent Company Statements of Operations

(In thousands of USD)	Note	For the year ended 31 December 2008 Consolidated	For the year ended 31 December 2008 Parent Company	For the period from 23 February to 31 December 2007 Consolidated	For the period from 23 February to 31 December 2007 Parent Company
Rental income		818	–	–	–
Fair value (losses) gains on revaluation of investment properties	6	(70,907)	–	10,159	–
Management and performance fees	16	(4,769)	(4,769)	(10,388)	(10,388)
Administrative expenses	18	(2,035)	(1,043)	(835)	(648)
Other expenses		(51)	–	–	–
Other income		37	–	–	–
Loss from operating activities		**(76,907)**	**(5,812)**	**(1,064)**	**(11,036)**
Gain on acquisition of subsidiary	5	–	–	36,503	–
Gain on recognition of joint venture	8	8,398	–	–	–
Net financial income	19	10,586	23,063	5,498	8,782
Share of the (loss) profit of associates	8	(4,116)	–	8,209	–
(Loss) profit before income tax		(62,039)	17,251	49,146	(2,254)
Income tax benefit (expense)	14	14,553	–	(3,260)	–
Net (loss) profit		**(47,486)**	**17,251**	**45,886**	**(2,254)**
Attributable to:					
Equity holders of the Parent Company		(46,457)	17,251	46,039	(2,254)
Minority interests		(1,029)	–	(153)	–
Net (loss) profit for the year		**(47,486)**	**17,251**	**45,886**	**(2,254)**
(Loss) earnings per share					
Basic (loss) earnings per share (in USD)	21	(0.34)	0.12	0.61	(0.03)
Diluted (loss) earnings per share (in USD)	21	(0.34)	0.12	0.60	(0.03

The Directors believe that all results derive from continuing activities.

The consolidated and Parent Company statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 39.

Consolidated and Parent Company Statements of Cash Flow

(In thousands of USD)	Note	For the year ended 31 December 2008 Consolidated	For the year ended 31 December 2008 Parent Company	For the period from 23 February to 31 December 2007 Consolidated	For the period from 23 February to 31 December 2007 Parent Company
Cash flow from operating activities					
Profit (loss) before income tax		(62,039)	17,251	49,146	(2,254)
Adjustments for:					
Gain on acquisition of subsidiary and minority interest	5	–	–	(36,503)	–
Gain on acquisition of joint venture	8	(8,398)	–	–	–
Fair value losses (gains) on revaluation of investment properties	6	70,907	–	(10,159)	–
Depreciation		7	–	–	–
Share of the loss (profit) of associates		4,116	–	(8,209)	–
Net financial income	19	(10,586)	(23,063)	(5,498)	(8,782)
Operating cash flow before changes in working capital		**(5,993)**	**(5,812)**	**(11,223)**	**(11,036)**
Decrease/(increase) in inventories		98	–	(140)	–
Decrease/(increase) in trade and other receivables		3,739	21,532	(4,103)	(375)
Decrease/(increase) in loans to Group companies		–	18,625	–	(213,649)
Increase/(decrease) in trade and other payables		3,015	(3,111)	10,092	10,042
Share based payments		19	19	18	18
Income tax paid		(78)	–	–	–
Cash flows (used in) from operating activities		**(5,230)**	**31,253**	**(5,356)**	**(215,000)**
Cash flow from investing activities					
Interest received		10,839	1,277	4,780	8,782
Acquisition of investment properties	6	(15,691)	–	(8,038)	–
Acquisition of property, equipment and intangible assets		(66)	(19)	–	–
Prepayments for land	7	(26,440)	–	(96,000)	–
Disbursement of long-term loan	9	(1,350)	–	–	–
Acquisition of subsidiary and minority interest, net of cash acquired	5	(3,455)	–	(12,925)	(19)
Acquisition of joint venture, net of cash acquired	8	(3,455)	(6,501)	–	–
Investments in associates	8	(6,000)	(6,000)	(8,000)	(8,000)
Cash flows (used in) from investing activities		**(45,618)**	**(11,243)**	**(120,183)**	**763**
Cash flow from financing activities					
Proceeds from issue of share capital		–	–	303,889	303,889
Purchase of own shares		(6,444)	(6,444)	–	–
Cash flows (used in) from financing activities		**(6,444)**	**(6,444)**	**303,889**	**303,889**
Net (decrease)/increase in cash and cash equivalents		**(57,292)**	**13,566**	**178,350**	**89,652**
Cash and cash equivalents at 1 January		178,350	89,652	–	–
Effect of the foreign exchange fluctuation on cash balances		158	316	–	–
Cash and cash equivalents at 31 December		**121,216**	**103,534**	**178,350**	**89,652**

The consolidated and Parent Company statements of cash flow are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 39.

Consolidated and Parent Company Statements of Changes in Equity

(In thousands of USD)	Attributable to equity holders of the Parent Company: Share capital	Share premium	Retained earnings	Total	Minority interests	Total
Consolidated						
Balance at 23 February 2007	**–**	**–**	**–**	**–**	**–**	**–**
Net profit (loss) for the period from 23 February to 31 December 2007	–	–	46,039	46,039	(153)	45,886
Share based compensation			18	18	–	18
Total recognised income and expenses	**–**	**–**	**46,057**	**46,057**	**(153)**	**45,904**
Shares issued	2,813	305,187	–	308,000	–	308,000
Cost of shares issued:						
Cash	–	(4,111)	–	(4,111)	–	(4,111)
Share based payments	–	(7,082)	7,082	–	–	–
Acquisition of subsidiary	–	–	–	–	16,369	16,369
Balance at 31 December 2007	**2,813**	**293,994**	**53,139**	**349,946**	**16,216**	**366,162**
Net loss for the year ended 31 December 2008	–	–	(46,457)	(46,457)	(1,029)	(47,486)
Share based compensation	–	–	19	19	–	19
Total recognised income and expenses	**–**	**–**	**(46,438)**	**(46,438)**	**(1,029)**	**(47,467)**
Shares issued to pay performance fee	34	4,398	–	4,432	–	4,432
Purchase of own shares	(179)	(6,265)	–	(6,444)	–	(6,444)
Acquisition of minority interest	–	–	11,728	11,728	(15,187)	(3,459)
Balance at 31 December 2008	**2,668**	**292,127**	**18,429**	**313,224**	**–**	**313,224**

(In thousands of USD)	Share capital	Share premium	Retained earnings	Total
Parent Company				
Balance at 23 February 2007	**–**	**–**	**–**	**–**
Net loss for the period from 23 February to 31 December 2007	–	–	(2,254)	(2,254)
Share based compensation	–	–	18	18
Total recognised income and expenses	**–**	**–**	**(2,236)**	**(2,236)**
Shares issued	2,813	305,187	–	308,000
Cost of shares issued:				
Cash	–	(4,111)	–	(4,111)
Share based payments	–	(7,082)	7,082	–
Balance at 31 December 2007	**2,813**	**293,994**	**4,846**	**301,653**
Net profit for the year ended 31 December 2008	–	–	17,251	17,251
Share based compensation	–	–	19	19
Total recognised income and expenses	**–**	**–**	**17,270**	**17,270**
Shares issued to pay performance fee	34	4,398	–	4,432
Purchase of own shares	(179)	(6,265)	–	(6,444)
Balance at 31 December 2008	**2,668**	**292,127**	**22,116**	**316,911**

The consolidated and Parent Company statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 39.

Notes to the Consolidated and Parent Company Financial Statements

1 Background

(a) Organisation and operations

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

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

The consolidated financial statements as at 31 December 2008 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint venture.

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

(b) Business environment

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.

The accompanying 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.

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Ukrainian and international banking sector, and higher interest rates. Such circumstances could affect the ability of the Group to obtain borrowings required for financing the development of properties.

Deteriorating operating conditions may also have an impact on cash flow forecasts and assessment of the impairment of assets. Due to the potential for these economic uncertainties to continue in the foreseeable future, there is a possibility that the assets may not be recovered at their carrying amounts in the ordinary course of business, with a corresponding impact on profitability in the future periods.

Various regulatory bodies in Ukraine are considering regulations that could increase the Group's costs to comply with such regulations or limit the lines of business it may conduct.

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, which is 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 Island 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 recognised in the period in which the estimates are revised and in any future periods affected.

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

- note 6 – valuation of investment property
- note 17 – measurement of share-based payments.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated and Parent Company financial statements are described below.

(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 the statement of operations from the effective date of acquisition.

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

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

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

Name		Country of incorporation	% of ownership 2008	2007
Bi Dolyna Development LLC		Ukraine	100	100
EF Nova Oselya LLC		Ukraine	100	100
Glangate LTD	(1)	Cyprus	100	–
Grand Development LLC	(1)	Ukraine	100	–
Hindale LTD	(3)	Cyprus	50%+1 share	15
J Komfort Neruhomist LLC	(1)	Ukraine	100	–
Korona Development LLC	(1)	Ukraine	100	–
Landshere LTD		Cyprus	95	95
Landzone LTD		Cyprus	100	100
Linkdell LTD		Cyprus	100	100
Linkrose LTD		Cyprus	100	100
Mountcrest LTD		Cyprus	100	100
OJSC “Dom byta “Obolon”		Ukraine	98	75
Promtek LLC	(3)	Ukraine	50%+1 share	15
Riverscope LTD		Cyprus	95	95
Startide LTD		Cyprus	100	100
Tradecom Inko LLC	(2)	Ukraine	100	–
Ukrainian Development Holding LTD	(1)	Cyprus	100	–
Ukrainian Properties LTD	(1)	Cyprus	100	–
VP Development LLC	(1)	Ukraine	99	–

(1) – newly established entity;
(2) – assets acquisition;
(3) – recognised as a joint venture, proportionally consolidated.

(ii) Associates

Associates are those entities, in which the Group has significant influence, but not control or join control, over the financial and operating policies. Associates are accounted for using the equity method. The financial statements include the Group’s share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Notes to the Consolidated and Parent Company Financial Statements (continued)

(iii) 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, unrealised 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 are described in note 3(g).

As at 31 December 2008 the Group has the following joint ventures: Hindale LTD (Cyprus) and Promtek LLC (Ukraine).

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

(b) Foreign currency and operations
(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of operations.

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

(c) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for this purpose.

(d) Share capital
Incremental costs directly attributable to issue of ordinary shares and share options are netted against proceeds received.

(e) Investment properties
Investment properties are those that are held either to earn rental income or for capital appreciation or for both. Investment properties principally comprise freehold land, leasehold land and investment properties held for future redevelopment. Land held under operating lease is classified and accounted for as investment property when it meets the definition of investment property.

(i) Initial measurement and recognition
Investment properties are measured initially at cost, including related acquisition costs. Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised as gain or loss in the statement of operations.

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

(ii) Subsequent measurement
Subsequent to initial recognition investment properties are stated at fair value. Any gain or loss arising from a change in fair value is included in the statement of operations in the period in which it arises.

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

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

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.

(iii) Property under construction
Property that is being constructed or developed for future uses as an investment property is accounted for as property and equipment and is stated at cost until construction or development is complete. During the construction phase only the building is accounted as property under construction. The land is classified as an investment property throughout the construction phase. Upon completing construction and bringing the building into condition in which it is ready for operation and when it is put into operation, the item is reclassified and subsequently accounted as an investment property.

(f) Property and equipment
(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

(ii) Subsequent costs
The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the statement of operations as incurred.

(iii) Depreciation
Depreciation is recognised in the statement of operations on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

(g) Goodwill
Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the statement of operations.

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

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

Notes to the Consolidated and Parent Company Financial Statements (continued)

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. 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.

Accounting for finance income and expenses is discussed in note 3 (n).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3 (j)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3 (b)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of operations.

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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 the statement of operations when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of operations.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(ii) 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 the statement of operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the statement of operations.

(j) Impairment

(i) Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

All impairment losses are recognised in the statement of operations.

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

(ii) Non-financial assets

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

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

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

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

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

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

(l) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(m) Rental income
Rental income from investment property is recognised in the statement of operations on a strait-line basis over the time of the lease.

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

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

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

(o) Income tax expense
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of operations except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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 by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise warrants and share options.

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

(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 2008, and have not been applied in preparing these consolidated financial statements. Management plans to adopt these pronouncements when they become effective, and has not yet analysed the likely impact of these new standards on its consolidated financial statements.

Notes to the Consolidated and Parent Company Financial Statements (continued)

IFRS 8 Operating Segments, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (see note 4).

Revised International Financial Reporting Standard IAS 1 Presentation of Financial Statements (2007) which becomes mandatory for the 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

Amended International Financial Reporting Standard IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the statement of operations.

Amendment to IFRS 2 Share-based Payment – Vesting conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the 2009 consolidated financial statements, with retrospective application.

Revised IFRS 3 Business Combinations (2008) and amended International Financial Reporting Standard IAS 27 (2008) Consolidated and Separate Financial Statements becomes mandatory for the 2010 consolidated financial statements. The revisions address, among others, accounting for step acquisitions, requires acquisition-related costs to be recognised for as expenses and removes the exception for changes in contingent consideration to be accounted for by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

(s) Corresponding figures
Corresponding figures as at 31 December 2007 are reclassified to conform to the current period's presentation.

In the consolidated financial statements as at and for the year ended 31 December 2007 for presentation purposes, deferred taxes related to the revaluation of investment properties were netted against the carrying amount of investment properties.

During the current period the Group changed the presentation of the deferred taxes related to the revaluation of investment properties in the balance sheet and presented them gross.

The effect of these reclassifications is as follows:

(In thousands of USD)	2007
Increase in	
Investment properties	21,805
Deferred tax liabilities	21,805

4 Segment Reporting
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses.

During the year ended 31 December 2008 the following changes were made in the presentation of segments: (a) the land banking segment was segregated from residential property, and (b) the office segment was renamed the mixed-used segment. The segment includes development projects for construction of residential and office centres. Corresponding figures for 2007 are adjusted to conform to the current period presentation.

Statement of operations information by business segment for the year ended 31 December 2008 is as follows:

(In thousands of USD)	Land banking	Mixed-use	Retail	Residential	Unallocated	Total
Rental income	–	818	–	–	–	818
Fair value losses on revaluation of investment properties	–	(56,328)	(11,900)	(2,679)	–	(70,907)
Management and performance fees	(2,606)	(726)	(765)	(672)	–	(4,769)
Administrative expenses	(29)	(729)	(70)	(157)	(1,050)	(2,035)
Other expenses	–	–	–	(51)	–	(51)
Other income	–	36	–	1	–	37
Loss from operating activities	(2,635)	(56,929)	(12,735)	(3,558)	(1,050)	(76,907)
Gain on recognition of joint venture	–	–	8,398	–	–	8,398
Net financial income (expense)	3	(70)	(121)	(132)	10,906	10,586
Share of the loss of associate	–	–	(4,116)	–	–	(4,116)
Profit (loss) before income tax	**(2,632)**	**(56,999)**	**(8,574)**	**(3,690)**	**9,856**	**(62,039)**
Income tax benefit (expense)	–	13,804	2,727	(1,938)	(40)	14,553
Net segment profit (loss)	**(2,632)**	**(43,195)**	**(5,847)**	**(5,628)**	**9,816**	**(47,486)**

Statement of operations information by business segment for the period from 23 February to 31 December 2007 is as follows:

(In thousands of USD)	Land banking	Mixed-use	Retail	Residential	Unallocated	Total
Fair value gains on revaluation of investment properties	–	–	–	10,159	–	10,159
Management and performance fees	(4,947)	(3,812)	(415)	(1,214)	–	(10,388)
Administrative expenses	(72)	(47)	(22)	(18)	(676)	(835)
Profit (loss) from operating activities	**(5,019)**	**(3,859)**	**(437)**	**8,927**	**(676)**	**(1,064)**
Gain on acquisition of subsidiary	–	36,503	–	–	–	36,503
Net financial income	–	–	–	77	5,421	5,498
Share of profit of associates	–	–	8,209	–	–	8,209
Profit before income tax	**(5,019)**	**32,644**	**7,772**	**9,004**	**4,745**	**49,146**
Income tax expense	–	–	–	(3,246)	(14)	(3,260)
Net segment profit (loss)	**(5,019)**	**32,644**	**7,772**	**5,758**	**4,731**	**45,886**

Assets and liabilities by business segments as at 31 December 2008 are as follows:

(In thousands of USD)	Land banking	Mixed-use	Retail	Residential	Unallocated	Total
Segment assets	116,955	32,561	21,188	30,143	–	200,847
Investment in associates	–	–	13,151	–	–	13,151
Unallocated assets	–	–	–	–	117,901	117,901
Total assets	**116,955**	**32,561**	**34,339**	**30,143**	**117,901**	**331,899**
Segment liabilities	1,013	8,316	3,079	5,531	736	18,675
Total liabilities	**1,013**	**8,316**	**3,079**	**5,531**	**736**	**18,675**
Capital expenditures	20,940	4,588	13,202	16,353	24	55,107
Depreciation	–	–	–	–	7	7

Notes to the Consolidated and Parent Company Financial Statements (continued)

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

(In thousands of USD)	Land banking	Mixed-use	Retail	Residential	Unallocated	Total
Segment assets	96,000	87,748	–	23,563	–	207,311
Investment in associates	–	–	16,209	–	–	16,209
Unallocated assets	–	–	–	–	177,870	177,870
Total assets	**96,000**	**87,748**	**16,209**	**23,563**	**177,870**	**401,390**
Segment liabilities	–	25,122	361	8,530	1,215	35,228
Total liabilities	**–**	**25,122**	**361**	**8,530**	**1,215**	**35,228**
Capital expenditures	96,000	12,925	8,038	8,000	–	124,963

5 Acquisition of subsidiary and minority interest

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

(In thousands of USD)	Pre-acquisition carrying amounts on a comparable IFRS basis	Fair value adjustments	Recognised fair values
Non-current assets			
Investment property	378	87,221	87,599
Property and equipment	263	(235)	28
Investments	2	(2)	–
Current assets			
Inventories	24	3	27
Trade and other receivables	18	–	18
Cash and cash equivalents	75	–	75
Non-current liabilities			
Deferred tax liabilities	(18)	(21,787)	(21,805)
Current liabilities			
Trade and other payables	(70)	–	(70)
Net identifiable assets and liabilities	**672**	**65,200**	**65,872**
Group’s share of net identifiable assets and liabilities			49,503
Gain on acquisition (negative goodwill)			(36,503)
Consideration paid			13,000
Cash acquired			(75)
Net cash outflow			**12,925**

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

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

In January 2008 the Group increased its stake in the Obolon project from 75.15% to 96.55% by acquisition of additional shares for USD 3,205 thousand, which was settled in cash.

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

(In thousands of USD)	Recognised carrying values
Non-current assets	
Investment property	87,599
Property, and equipment	28
Current assets	
Inventories	27
Trade and other receivables	18
Cash and cash equivalents	59
Non-current liabilities	
Deferred tax liability	(21,805)
Current liabilities	
Trade and other payables	(70)
Net identifiable assets and liabilities	**65,856**
Group's additional share (21.4%) in the net identifiable assets and liabilities	14,093
Gain on acquisition	(10,888)
Consideration paid	3,205

In June 2008 the Group acquired an additional 1.65% of the shares in Obolon for USD 250 thousand, which was settled in cash. The gain recognised on this acquisition totals to USD 840 thousand.

6 Investment properties and property under construction

Movements in investment properties for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	Freehold land	Leasehold land	Total
At 23 February 2007			
Acquisitions	8,038	87,599	95,637
Fair value gains on revaluation	10,159	–	10,159
At 31 December 2007	**18,197**	**87,599**	**105,796**
Acquisitions	11,901	–	11,901
Assets acquisition*	–	1,339	1,339
Construction	1,259	1,192	2,451
Recognised as joint venture	–	22,204	22,204
Fair value losses on revaluation	(2,679)	(68,228)	(70,907)
At 31 December 2008	**28,678**	**44,106**	**72,784**

* During the year ended 31 December 2008 the Group recognised the acquisition of subsidiary Tradecom Inco LCC as an acquisition of assets since the entity had no operations or business activities.

Investment property recognised in the joint venture includes property under construction of USD 108 thousand.

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

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

- rental rates which were based on current rental rates ranging from USD 6.3 to USD 60 per m^2.
- development costs based on current construction prices
- discount rates ranging from 18% to 20%
- developer's profit of 10% to 20%

Sensitivity

If rental rates are 1% less than those used in the valuation model, the fair value of investment properties would be USD 1,625 thousand lower. If rental rates are 1% higher, then the fair value of investment properties would be USD 1,625 thousand higher.

Notes to the Consolidated and Parent Company Financial Statements (continued)

If development costs are 5% higher than those used in the valuation model, the fair value of investment properties would be USD 3,921 thousand lower. If development costs are 5% less, then the fair value of investment properties would be USD 3,921 thousand higher.

If the discount rate applied is 1% higher than that used in the valuation model, the fair value of investment properties would be USD 2,270 thousand lower. If the discount rate is 1% less, then the fair value of investment properties would be USD 2,349 thousand higher.

7 Prepayments for land

During 2008 the Group increased prepayments for land acquisition from USD 96,000 thousand to USD 122,440 thousand. The prepayments made are secured by the acquired land.

In December 2008 the Group entered into the following pledge agreements to secure prepayments for land. The main conditions of the agreements are as follows:

(In thousands of USD) Date of signing	Pledgor	Collateral	Amount of prepayment for land	Assigned value of the Collateral
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.	16,500	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 146 hectares located in the Kyiv region.	45,940	46,000
			116,940	**117,000**

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

On 1 October 2008 the Group entered into an agreement with company Promatec Ltd, Cyprus (the Agent), which provides the Group with a leasehold interest for 3.8 hectares of land located on Kyivska str, Kremenchuk, Ukraine. Under this agreement the Group made several prepayments to the Agent totaling USD 4,500 thousand. Subsequent to 31 December 2008 the transaction was completed and the Group acquired 99.99% of the Ukrainian company that has the leasehold right for the above mentioned land.

On 28 October 2008 the Group concluded a preliminary agreement with Texville Ltd, Cyprus for purchasing of a Ukrainian company (Ukr SPV) for USD 3,000 thousand. Ukr SPV is expected to receive a freehold right to a land plot with a total area of 3.7 hectares, located at Gagarina Avenue, Rivne, Ukraine. The first payment of USD 1,000 thousand was made upon signing of the preliminary agreement. The full settlement will be made upon obtaining by Ukr SPV the original state act of ownership over the land plot and signing share purchase agreement for the acquisition of respective Ukr SPV.

8 Investments in associate and interest in joint venture

The Group has the following investments in associates and joint venture as at 31 December:

	Country	Ownership/Voting 2008	2007
Henryland Group Ltd.	British Virgin Islands	38%	38%
Hindale Ltd.	Cyprus	50%+1 share	15%

During 2008 the Group increased its ownership of Hindale Ltd to 50% plus one share and obtained joint control over this entity.

In December 2007 the Group acquired 15% of the shareholding interest of Hindale Ltd. This company, through its subsidiary Promtek Ltd, holds the lease right on a plot of land located on Komarova Avenue, Kiev, Ukraine. As at 30 June 2008 the Group increased its stake in Hindale Ltd. from 15% to 50% plus one share by acquisition of additional shares issued for USD 6,500 thousand. 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. Accordingly, management determined that the Group has joint control over Hindale Ltd. As at 31 December 2008 the Group stated its investment in Hindale Ltd. as interest in joint venture and 50% of assets and liabilities of Hindale Ltd are added to the consolidated financial statements.

The acquisition of an additional 35% plus one share of Hindale Ltd had the following effect on assets and liabilities on the acquisition date:

(In thousands of USD)	Total recognised fair values	Group's share of recognised fair values
Non-current assets		
Investment property	44,190	22,095
Construction in progress	218	109
Current assets		
Trade and other receivables	196	98
Cash and cash equivalents	6,090	3,045
Non-current liabilities		
Deferred tax liabilities	(10,980)	(5,490)
Current liabilities		
Trade and other payables	(36)	(18)
Net identifiable assets and liabilities	**39,678**	**19,839**
Previously recognised fair value gain on investments in associate		(4,941)
		14,898
Gain on acquisition (negative goodwill)		8,398
Consideration paid		6,500
Cash acquired		(3,045)
Net cash outflow		**3,455**

The following is summarised financial information, in aggregate, in respect of associates and joint ventures as at 31 December and for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007:

	Henryland Group Ltd.		Hindale Ltd.		Total	
(In thousands of USD)	2008	2007	2008	2007	2008	2007
Total assets	41,958	33,643	12,516	33,202	54,474	66,845
Total liabilities	7,350	3,993	2,363	258	9,713	4,251
(Loss) profit for the year	(5,037)	8,597	(9,688)	32,937	(14,725)	41,534
Share in (loss) profit for period	**(1,914)**	**3,267**	**(4,844)**	**4,941**	**(6,758)**	**8,209**

As at 31 December 2008 the total cash investment in Henryland Group Ltd (Henryland) amounts to USD 14,000 thousand (as at 31 December 2007 – USD 8,000 thousand). During 2008 the Group recognised losses from Henryland of USD 4,116 thousand (2007: income of USD 3,267 thousand). During 2008 the share of the losses of associates includes the share in net losses of Henryland and movements in its currency translation reserves that were recognised directly in equity. The principal activity of Henryland is the development of investment property in Ukraine. The carrying value of the Group's investment in Henryland as at 31 December 2008 is USD 13,151 thousand (as at 31 December 2007: USD 11,267 thousand).

9 Long-term loan

On 14 July 2008 a loan facility agreement between the Group and "Commercial Construction" LLC (the Borrower) was signed. According to the agreement the Group provided a loan with a maturity date of 31 August 2011 and 11% fixed interest rate. As at 31 December 2008 the total amount of the loan outstanding is USD 1,378 thousand including accrued interest of USD 28 thousand. The maximum amount of the loan that can be extended to the Borrower is USD 10,000 thousand. However, this does not represent an irrevocable commitment of the Group to extend the loan up to the full amount. Additional disbursement will be subject to the discretion of the Group.

10 Inventories

Inventories as at 31 December are as follows:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Construction materials	63	–	140	–
Finished goods and goods for resale	–	–	12	–
Other inventory	7	–	16	–
Total	**70**	**–**	**168**	**–**

Notes to the Consolidated and Parent Company Financial Statements (continued)

11 Trade and other receivables

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

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Prepayments made	428	–	3,720	–
Accrued interest	3	3	718	–
Other receivables	326	309	401	375
Total	**757**	**312**	**4,839**	**375**

12 Cash and cash equivalents

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

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Petty cash	–	–	3	–
Bank balances	1,146	232	383	90
Call deposits	120,070	103,302	177,964	89,562
Total	**121,216**	**103,534**	**178,350**	**89,652**

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:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Bank balances				
B	1,146	–	293	–
AA-	–	232	90	90
	1,146	232	383	90
Call deposits				
AA	9,500	9,500	89,652	89,652
AA-	94,171	93,802	1,100	–
A-	3,577	–	50,293	–
not rated	12,822	–	36,919	–
	120,070	**103,302**	**177,964**	**89,562**
Total	**121,216**	**103,534**	**178,347**	**89,652**

13 Equity

Movements in share capital and share premium for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

Number of shares unless otherwise stated (In thousands of USD, except for share numbers)	Ordinary shares	Amount
Authorised shares	300,000,000	6,000
Par value (USD)	0.02	–
Issued during the period from 23 February to 31 December 2007	140,630,300	2,813
Outstanding as at 31 December 2007, fully paid	140,630,300	2,813
Issued	1,698,416	34
Own shares acquired and cancelled	(8,943,000)	(179)
Outstanding as at 31 December 2008, fully paid	**133,385,716**	**2,668**

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 price of USD 2.73 per ordinary share, raising gross proceeds of USD 100,000 thousand. The difference between net proceeds per share and par value is recognised as share premium.

During 2008 the Group issued 1,698,416 new ordinary shares at a price of USD 2.60 per ordinary share to settle 70% of the manager's performance fee for 2007 in the amount of USD 4,432 thousand. Following the extraordinary general meetings of members of the Parent Company on 31 July 2008 and 1 December 2008, 8,943,000 of its own shares were acquired by the Parent Company and were cancelled. The purchase price of acquired shares ranged from GBP 0.335 to GBP 0.8 per share. The difference between the total price paid and par value is recognised as share premium decrease.

14 Income tax expense

(a) Income tax expense

Income taxes for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Current tax expense	(59)	–	(14)	–
Deferred tax benefit (expense)	14,612	–	(3,246)	–
Total benefit (expense)	**14,553**	**–**	**(3,260)**	**–**

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

(b) Reconciliation of effective tax rate

The difference between the total expected income tax (benefit) expense for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 computed by applying the Ukrainian statutory income tax rate to (loss) profit before tax and the reported tax (benefit) expense is as follows:

(In thousands of USD)	2008	%	2007	%
(Loss) profit before tax	(62,039)	100	49,146	100
Computed expected income tax (benefit) expense at statutory rate	(15,510)	25	12,286	25
Effect of lower tax rates	2,835	5	(5,958)	12
Non-taxable income (income earned by holding companies)	840	1	(3,438)	7
Non-deductible expenses	3,399	5	18	1
Change in unrecognised temporary differences	1,233	2	352	–
Effective income tax (benefit) expense	**(14,553)**	**24**	**3,260**	**7**

(c) Recognised deferred tax assets and liabilities

The movement in deferred tax liabilities for the year ended 31 December 2008 is as follows:

(In thousands of USD)	1 January 2008 liability	Recognised in income	Recognised in business combinations	31 December 2008 liability
Investment property	**(25,051)**	**14,612**	**(5,490)**	**(15,929)**
Tax liabilities	**(25,051)**	**14,612**	**(5,490)**	**(15,929)**

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

(In thousands of USD)	23 February 2007 liability	Recognised in income	Recognised in business combinations	31 December 2007 liability
Investment property	–	(3,246)	(21,805)	(25,051)
Tax liabilities	**–**	**(3,246)**	**(21,805)**	**(25,051)**

Notes to the Consolidated and Parent Company Financial Statements (continued)

(d) Unrecognised deferred tax assets

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

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Tax loss carry-forwards	1,586	–	353	–
	1,586	**–**	**353**	**–**

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 there from.

15 Trade and other payables

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

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Management and performance fees	1,841	1,841	8,835	8,835
Brokerage fee for second issue of shares	–	–	999	999
Other payables and accrued expenses	894	657	329	208
Total current liabilities	**2,735**	**2,498**	**10,163**	**10,042**

16 Management and performance fees

Management and Performance fees for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Management fee	4,769	4,769	4,057	4,057
Performance fee	–	–	6,331	6,331
Total	**4,769**	**4,769**	**10,388**	**10,388**

The Parent Company entered into a management agreement dated 16 May 2007 with Dragon Capital Partners Ltd (the Manager) pursuant to which the latter has agreed to provide advisory, management and monitoring services to the Group.

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

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

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

The Manager is also entitled to receive an annual performance fee calculated by reference to the increase in the net asset value (NAV) per share over the relevant accounting period. For these purposes NAV is the aggregate of the consolidated non-current and current assets 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 minority interest and payables related to management fees) provided that, in respect of the Group's first accounting reference period, the opening NAV is equal to the net proceeds of the initial sale of shares.

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

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

Payment of 30% of the performance fee will be paid within 10 business days following the publication of the audited financial results for the relevant accounting period. The remaining balance will be satisfied by the issue of ordinary shares at a price equal to the average middle market closing price of ordinary shares over the last 20 business days in the accounting period in relation to which the performance fee is being paid.

The total management fee for the period from 23 February to 31 December 2007 is USD 4,057 thousand and the performance fee is USD 6,332 thousand. The average middle market closing price of ordinary shares over the last 20 business days of 2007 is USD 2.609 per share. A total of 70% of the performance fees were settled by the issue of 1,698,416 new ordinary shares in 2008.

The total management fee for the year ended 31 December 2008 is USD 4,758 thousand. No performance fee is applicable based on the results of 2008 because there was no increase in net asset value per share over the year ended 31 December 2008.

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:

Date granted	Options granted to Mr. van der Heijden 16 May 2007	Warrants granted to Dragon Capital Partners 16 May 2007	Warrants granted to Dragon Capital Partners 29 November 2007	Warrants granted to ZAI 16 May 2007	Total
Number of instruments	100,000	5,2 00,000	1,831,505	1,040,000	8,171,505
Vesting period	(1)	Immediately	Immediately	Immediately	
Expiry date	(1)	16 May 2012	29 November 2012	16 May 2012	
Exercise price	2.00	2.00	2.73	2.00	
Fair value at date of grant (USD thousand)	84	4,279	1,947	856	7,166
Share based payments recognised in cost of shares issued in 2007 (USD thousand)	–	4,279	1,947	856	7,082
Share based compensation (USD thousand) during 2007	18	–	–	–	18
Share based compensation (USD thousand) during 2008	19	–	–	–	19

(1) Options granted to Mr. van der Heijden will vest as follows:

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

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

There were no forfeited or exercised options during the year ended 31 December 2008 or for the period from 23 February to 31 December 2007.

The fair value of services received in return for share options and warrants granted is based on the fair value of share options and warrants granted, measured using the Black-Scholes formula, using the following assumptions:

(In USD, except for number of shares and percent)	Key management personnel	Dragon Capital Partners Ltd Initial share issue	Dragon Capital Partners Ltd Secondary share issue	Zimmerman Adams International Ltd
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
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.

Notes to the Consolidated and Parent Company Financial Statements (continued)

Share based payments recognised for the year ended 31 December 2008 and during the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	2008	2007
Share options granted in 2007:		
Share options (compensation expenses)	19	18
Warrants to Dragon Capital Partners (share issue cost)	–	6,226
Warrants to ZAI (share issue cost)	–	856
Total share based payments	**19**	**7,100**

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

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

(In USD, except for number of shares)	Weighted average fair value	Weighted average exercise price	Number of options and warrants
Outstanding at 23 February 2007	–	–	–
Granted during the period	0.88	2.16	8,171,505
Outstanding at 31 December 2007	0.88	2.16	8,171,505
Exercisable at 31 December 2007	0.88	2.17	8,071,505
Exercisable at 31 December 2008	0.83	2.16	7,719,288

18 Administrative expenses

Administrative expenses for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Professional services	799	517	505	364
Audit fees	112	107	105	73
Directors’ fees	125	125	91	91
Travel expenses	97	97	50	50
Insurance	117	33	25	25
Advertising	72	72	17	17
Bank charges	18	4	14	7
Share based compensation	19	19	18	18
Wages and salaries	327	–	–	–
Other	349	69	10	3
Total administrative expenses	**2,035**	**1,043**	**835**	**648**

19 Net financial income

Net financial income for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 is as follows:

(In thousands of USD)	Consolidated 2008	Parent Company 2008	Consolidated 2007	Parent Company 2007
Interest income on inter-Group loans	–	21,702	–	6,329
Interest income	10,870	1,280	5,503	2,452
Currency exchange losses	(284)	81	(5)	1
Net financial income	10,586	23,063	5,498	8,782

20 Contingencies

(a) Taxation contingencies

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

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

(b) Insurance

The 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.

(c) Capital expenditure and other commitments

As at 31 December 2008 outstanding commitments to finance construction of investment properties and other commitments amount to USD 34,484 thousand (2007: USD 59,500 thousand).

21 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based upon the loss for the year ended 31 December 2008 attributable to the ordinary shareholders of USD 47,486 thousand (for the period from 23 February to 31 December 2007: based on the profit of USD 45,886 thousand) and a weighted average number of ordinary shares outstanding calculated as follows:

(in number of shares weighted on the period outstanding)	2008	2007
Shares issued on incorporation on 23 February 2007	2	1
Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May	198	10
Shares issued on 1 June 2007	104,000,000	60,333,449
Shares issued on 29 November 2007	36,630,100	14,874,359
Shares issued on April 2008	1,693,776	–
Effect of own shares buyback	(1,289,612)	–
Weighted average number of shares for the period	**141,034,464**	**75,207,819**

Diluted earnings per share

The calculation of diluted earnings per share is based on the loss for the year ended 31 December 2008 attributable to ordinary shareholders of USD 47,486 thousand (for the period from 23 February to 31 December 2007: based on the profit of USD 45,886 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

(In number of shares)	31 December 2008	31 December 2007
Weighted average number of shares for the year ended 31 December	141,034,464	75,207,819
Share options	–	14,628
Warrants	–	912,807
Weighted average number of shares for the period (fully diluted)	**141,034,464**	**76,135,254**

Because during the year ended 31 December 2008 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.

Notes to the Consolidated and Parent Company Financial Statements (continued)

(b) Credit risk
When the Group enters into arrangement exposing it to credit risk, it does so only on basis of due diligence research and the reputation of the counterparty. As at 31 December 2008 the largest exposures relate to bank deposits of USD 120,070 thousand and prepayments made under four land acquisition contracts totaling USD 122,440 thousand (31 December 2007: USD 177,964 thousand and USD 96,000 thousand, respectively). This latter risk is mitigated by pledge agreements for corporate rights of the pledgor in the entities that own the land to be acquired.

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

(d) Foreign currency risk
The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily UAH and EUR.

The exposure to foreign currency risk as at 31 December is as follows based on notional amounts:

	2008			2007
(In thousands of USD)	EUR	GBP	UAH	UAH
Current assets				
Cash and cash equivalent	44	168	80	262
Trade and other receivables	–	–	648	161
Current liabilities				
Trade and other payables	(27)	(359)	(61)	(81)
Net long (short) position	**17**	**(191)**	**667**	**342**

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

Currency	2008	2007
EUR	1.4098	1.4692
GBP	1.4471	1.9995
UAH	0.1299	0.1980

As at 31 December 2008 a 10 percent weakening of the US dollar against the UAH would have decreased post-tax profit and equity by USD 50 thousand (2007: USD 26 thousand).

As at 31 December 2008 a 10 percent weakening of the US dollar against the GBP would have increased post-tax profit and equity by USD 14 thousand.

As at 31 December 2008 a 10 percent weakening of the US dollar against the EUR would have decreased post-tax profit and equity by USD 1 thousand.

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

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

23 Related party transactions
(a) Transactions with management and close family members
(i) Key management remuneration

Key management compensation included in the statement of operations for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	2008	2007
Directors' fees	125	91
Share based payment expense (options granted)	19	18
Total management remuneration	**144**	**109**

(ii) Key management personnel and director transactions
The Directors owned shares in the Parent Company as at 31 December as follows:

	2008 Number of shares	2008 Ownership %	2007 Number of shares	2007 Ownership %
Aloysius Wilhelmus Johannes van der Heijden	200,000	0.15	–	–
Tomas Fiala	6,831,500	5.12	6,831,500	4.9
	7,031,000	**5.27**	**6,831,500**	**4.9**

Boris Erenburg, one of the Group's directors, is also an executive of Spinnaker Capital Group, which acquired 14,874,400 shares (11.2%) of the Group during the first and second share issues.

Tomas Fiala, one of the Group's directors, is the principal shareholder and managing director of Dragon Capital Group which acquired 6,831,500 shares (5.12%) of the Group during the first and second share issues. Also Tomas Fiala is a director in Dragon Capital Partners, which has received as settlement of 70% of the performance fee in the form of 1,698,416 newly issued ordinary shares.

(b) Transactions with other related parties
Expenses incurred and outstanding balances of transactions for the year ended 31 December 2008 and for the period from 23 February to 31 December 2007 are as follows:

(In thousands of USD)	2008 Transactions	2008 Balance outstanding	2007 Transactions	2007 Balance outstanding
Payment to DRGN LTD				
Brokerage fee for initial public offering	–	–	2,048	–
Brokerage fee for second issue of shares	–	–	999	999
Expenses to be reimbursed to Manager	164	164	–	–
	164	**164**	**3,047**	**999**

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

24 Events subsequent to the balance sheet date

On 17 February 2009 the Board of Directors passed a written resolution according to which the funds from the deposit of Dragon-Ukrainian Properties and Development Plc. with Rodovid bank in the amount of USD 12,779 thousand and the accrued interest in the amount of USD 127 thousand was used to acquire real estate in the gated community Sadok Vyshnevyi. Sadok Vyshnevyi has 38 newly constructed flats that are valued at contractual price USD 12,432 thousand.

The remaining portion of the deposit of USD 347 thousand was used to provide a loan to an unrelated party, Morgan Furniture Ltd., which is collateralized by industrial real estate. Pursuant to London Stock Exchange Rule 13, the independent directors consider, having consulted with the nominated advisor, that the terms of this agreement are fair and reasonable as far as shareholders are concerned.

At the beginning of 2009 the Group has purchased 99.99% of shareholding interest in Novyy Region with intention to develop new retail centre. Novyy Region has leasehold interest for 3.8 hectars land plot located on Kyivska str, Kremenchuk, Ukraine The cost of acquisition is USD 4,500 thousand.

Following of the Extraordinary General Meeting of Members of the Parent Company on 1 December 2008, 2,505,000 of its own shares were acquired during the period form 1 January to 15 February 2009 by Parent Company and cancelled. The purchasing price of acquired shares was GBP 0.38 per ordinary share. The difference rose between consideration paid and par value will be recognised as share premium decrease.

Aloysius Wilhelmus Johannes van der Heijden
Chairman of the board

Fredrik Svinhufvud
Non-executive Director

8 April 2009

Notes

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