

**Dragon – Ukrainian Properties &  
Development plc.**

**Consolidated Company  
financial statements  
30 June 2011**

*This consolidated Company financial statements contains 47  
pages*

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The consolidated Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

<i>(In thousands of USD)</i>	<i>Notes</i>	<i>Consolidated</i>	
		<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	4	<b>76,611</b>	76,589
Prepayments for land	5	<b>124,094</b>	124,094
Investments in associates	6	<b>49,948</b>	46,653
Long-term loan issued	7	<b>4,115</b>	2,110
Property and equipment		<b>21</b>	41
Intangible assets		<b>31</b>	31
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>254,820</b>	249,518
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	8	<b>11,342</b>	12,237
Short-term loans receivable	7	-	346
Trade and other receivables	9	<b>1,414</b>	1,514
VAT recoverable		<b>547</b>	358
Prepaid income tax		<b>52</b>	52
Financial Instruments (option)	6	<b>1,977</b>	2,637
Cash and cash equivalents	11	<b>38,430</b>	44,915
		<hr/>	<hr/>
		<b>53,762</b>	
<b>Total current assets</b>		<hr/>	62,059
		<hr/>	<hr/>
<b>Total assets</b>		<b>308,582</b>	311,577
		<hr/> <hr/>	<hr/> <hr/>

The consolidated Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

<i>(In thousands of USD)</i>	<i>Notes</i>	<i>Consolidated</i>	
		<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>	<i>12</i>		
Share capital		2,354	2,354
Share premium		282,077	282,077
Retained earnings		<u>9,747</u>	<u>12,404</u>
<b>Total equity attributable to equity holders of the Parent Company</b>		<b>294,178</b>	296,835
<b>Non-controlling interest</b>		<u>(1,331)</u>	<u>(1,058)</u>
<b>Total equity</b>		<u><b>292,847</b></u>	<u>295,777</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	<i>13</i>	<u>11,751</u>	<u>11,926</u>
<b>Total non-current liabilities</b>		<u><b>11,751</b></u>	<u>11,926</u>
<b>Current liabilities</b>			
Trade and other payables	<i>14</i>	3,980	3,870
Income tax payable		<u>4</u>	<u>4</u>
<b>Total current liabilities</b>		<u><b>3,984</b></u>	<u>3,874</u>
<b>Total liabilities</b>		<u><b>15,735</b></u>	<u>15,800</u>
<b>Total equity and liabilities</b>		<u><b>308,582</b></u>	<u><u>311,577</u></u>

These consolidated Company financial statement was approved by management on \_\_August 2011 and were signed on its behalf by:

Chairman of the board

Aloysius Johannes Van der Heijden

Non-executive director

Fredrik Svinhufvud

The consolidated Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

<i>(In thousands of USD)</i>	<i>Notes</i>	<i>Consolidated</i>	
		<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
Rental income		<u>25</u>	294
Proceeds from sale of investment properties		<b>496</b>	195
Carrying value of investment properties	4	<u>(279)</u>	(233)
Profit (loss) from sales of investment property		<b>217</b>	(38)
Profit (loss) on revaluation of investment properties	4	<b>(2,272)</b>	1,087
Write-down of trading property to net realizable value	8	<b>(900)</b>	(10)
Management fees	15	<b>(2,222)</b>	(2,217)
Administrative expenses	17	<b>(870)</b>	(1,190)
Other income		-	13
Other expenses		<u>(103)</u>	(26)
<b>Loss from operating activities</b>		<u><b>(6,125)</b></u>	(2,087)
Gain on disposal of subsidiary		-	4
Net financial income (loss)	18	<b>(279)</b>	713
Share of the profit of associates	6	<u><b>3,295</b></u>	414
<b>Loss before income tax</b>		<b>(3,109)</b>	(956)
Income tax benefit (expense)	13	<u><b>175</b></u>	(378)
<b>Net loss and total comprehensive loss for the period</b>		<u><u><b>(2,934)</b></u></u>	<u><u>(1,334)</u></u>
Attributable to:			
Equity holders of the Parent Company		<b>(2,661)</b>	(1,123)
Non-controlling interest		<u><b>(273)</b></u>	(211)
<b>Net loss and total comprehensive loss for the period</b>		<u><u><b>(2,934)</b></u></u>	<u><u>(1,334)</u></u>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share (in USD)	20	<b>(0.02)</b>	(0.01)
Diluted earnings (loss) per share (in USD)	20	<b>(0.02)</b>	(0.01)

The Directors believe that all results derive from continuing activities.

The consolidated Company statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

<i>(In thousands of USD)</i>	<i>Notes</i>	<i>Consolidated</i>	
		<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
<b><i>Cash flow from operating activities</i></b>			
Profit (loss) before income tax		<b>(3,109)</b>	(956)
<i>Adjustments for:</i>			
Write-down of trading property to net realizable value	8	<b>900</b>	10
Gain on disposal of subsidiary		-	(4)
Gain from sale of investment property		<b>(217)</b>	-
Changes of value Financial Instruments (option)		-	25
Gain (loss) on revaluation of investment properties	4	<b>2,272</b>	(1,087)
Depreciation		<b>20</b>	13
Share of the profit of associates	6	<b>(3,295)</b>	(414)
Net financial income	18	<b>279</b>	(713)
<b>Operating cash flow before changes in working capital</b>		<b>(3,150)</b>	(3,126)
Change in inventories		<b>(5)</b>	(1)
Change in trade and other receivables		<b>332</b>	218
Change in trade and other payables		<b>110</b>	54
Share based payments	16	<b>4</b>	6
Income tax paid		-	(62)
<b>Cash flows used in operating activities</b>		<b>(2,709)</b>	(2,911)

The consolidated Company statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

<i>(In thousands of USD)</i>	<i>Notes</i>	<b>Consolidated For six months ended 30 June 2011</b>	For six months ended 30 June 2010
<b><i>Cash flow from investing activities</i></b>			
Interest received		<b>303</b>	511
Acquisition and development of investment property	4	<b>(2,573)</b>	(702)
Acquisition of property, equipment and intangible assets		-	(1)
Prepayments for land	5	-	(2,575)
Disbursement of long-term loan		-	201
Proceeds from investment property sold		<b>496</b>	-
Loans provided		<b>(2,005)</b>	-
<b>Cash flows used in investing activities</b>		<b>(3,779)</b>	(2,566)
<b><i>Cash flow from financing activities</i></b>			
Proceeds from the issue of share capital		-	-
Purchase of own shares		-	-
<b>Cash flows from financing activities</b>		-	-
<b>Net decrease in cash and cash equivalents</b>		<b>(6,488)</b>	(5,477)
Cash and cash equivalents at the beginning of the period		<b>44,915</b>	86,195
Effect of foreign exchange fluctuation on cash balances		<b>3</b>	3
<b>Cash and cash equivalents at the end of the period</b>		<b>38,430</b>	80,721

The consolidated Company statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

Consolidated

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

The consolidated Company statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.



Consolidated Company Statement of Changes in Equity for six months ended 30 June 2011  
(continued)

<i>(In thousands of USD)</i>	<b>Attributable to equity holders of the Company</b>				<b>Minority interests</b>	<b>Total</b>
	<b>Share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total</b>		
<b>Balance at 1 January 2011</b>	<b>2,354</b>	<b>282,077</b>	<b>12,404</b>	<b>296,835</b>	<b>(1,058)</b>	<b>295,777</b>
Net profit (loss)	-	-	(2,661)	(2,661)	(273)	(2,934)
<b>Total comprehensive profit (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>(2,661)</b>	<b>(2,661)</b>	<b>(273)</b>	<b>(2,934)</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Share based compensation			4	4		4
			-	-		-
Total contributions by and distributions to owners	-	-	4	4	-	4
<b>Balance at 30 June 2011</b>	<b>2,354</b>	<b>282,077</b>	<b>9,747</b>	<b>294,178</b>	<b>(1,331)</b>	<b>292,847</b>

The consolidated Company statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statement set out on pages 10 to 47.

## **1 Background**

### **(a) Organization and operations**

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

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

The consolidated financial statements as at 30 June 2011 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

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

### **(b) Business environment**

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

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

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

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

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

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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

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

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

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

### **(d) Use of judgments, estimates and assumptions**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- note 4 - valuation of investment property
- note 16 - measurement of share-based payments
- notes 3(d) and 3(h) classification between investment property and inventories

### **3 Significant accounting policies**

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

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

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries**

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

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

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

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

Consolidated subsidiaries include the following:

Name	Country of incorporation	Cost		% of ownership	
		30 June 2011	31 December 2010	30 June 2011	31 December 2010
Bi Dolyna Development LLC	Ukraine	28	28	100%	100%
EF Nova Oselya LLC	Ukraine	48	48	100%	100%
Glangate LTD	Cyprus	2	2	100%	100%
Grand Development LLC (2)	Ukraine	2,463	-	100%	-
J Komfort Neruhomist LLC	Ukraine	1,096	1,096	100%	100%
Korona Development LLC	Ukraine	1,134	1,134	100%	100%
Landshere LTD	Cyprus	3	3	95%	95%
Landzone LTD	Cyprus	6,503	6,503	100%	100%
Linkdell LTD	Cyprus	3	3	100%	100%
Linkrose LTD	Cyprus	3	3	100%	100%
Mountcrest LTD	Cyprus	64	64	100%	100%
OJSC "Dom byta "Obolon"	Ukraine	16,470	16,470	98%	98%
Riverscope LTD	Cyprus	3	3	95%	95%
Startide LTD	Cyprus	3	3	100%	100%
Ukrainian Development Holding LTD	Cyprus	1	1	100%	100%
Ukrainian Properties LTD	Cyprus	1	1	100%	100%
Blueberg Trading Ltd (1)	BVI	-	-	100%	-
Stenfield Finance Ltd (1)	BVI	-	-	100%	-
Noviy Region LLC	Ukraine	4,507	4,507	100%	100%
Rivnobud LLC	Ukraine	4,471	4,471	100%	100%
Commercial project LLC	Ukraine	1	1	100%	100%
Riviera Villas LLC	Ukraine	56	-	100%	100%

(1) – newly established subsidiaries

(2) – special purpose entity

## (ii) Special purpose entities

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

**(iii) Associates**

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

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

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

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

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

**(iv) Joint ventures**

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

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

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

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the accounting policy for goodwill arising on the acquisition as described in note 3(f)(i).

As at 30 June 2011 the Group has no joint ventures.

**(v) Transactions eliminated on consolidation**

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

**(b) Foreign currency and operations**

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

**(ii) Foreign operations**

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

**(c) Financial instruments**

**(i) Non-derivative financial assets**

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

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

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

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

*Financial assets at fair value through profit or loss*

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

### *Held-to-maturity financial assets*

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

### *Loans and receivables*

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

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

### *Cash and cash equivalents*

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

### *Available-for-sale financial assets*

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

## **(ii) Non-derivative financial liabilities**

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

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

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



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

Other financial liabilities comprise trade and other payables as presented in note 14.

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

### **(iii) Share capital**

#### *Ordinary shares*

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

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

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

### **(iv) Derivative financial instruments**

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

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

**(d) Investment properties**

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

Investment properties principally comprise freehold land, leasehold land and investment properties held for future redevelopment. Leasehold of land held under operating lease is classified and accounted for as investment property when it meets the definition of investment property.

**(i) Initial measurement and recognition**

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

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

**(ii) Subsequent measurement**

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

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

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

Investment properties are derecognized on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized as gain or loss in profit or loss.

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

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

After discussion with the independent appraiser, and considering the types of investment properties owned by the Group and their intended development, management chose to estimate the fair value of land using the

“residual land value” income approach. Under this method, the fair value of the freehold and leasehold interest in land equals the residual value of land under development (assuming that the developer will meet the terms set for development).

The residual value of land is determined based on the value for which such land could be sold in the market, which is estimated by appraisers to be the fair value of the completed project less cost to complete and an appropriate developer’s profit. The residual value of land is equal to future cash flows generated by the developed property within the forecasting period plus terminal value of the property less development costs and developer’s interest.

**(e) Property and equipment**

**(i) Recognition and measurement**

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

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

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

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

**(ii) Reclassification to investment property**

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

**(iii) Subsequent costs**

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

**(iv) Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

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

**(f) Intangible assets**

**(i) Goodwill**

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

*Initial measurement and recognition*

The Group measures goodwill at the acquisition date as:

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

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

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

*Subsequent measurement*

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

**(ii) Other intangible assets**

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

**(iii) Subsequent expenditure**

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

**(g) Leased assets**

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

investment property under the fair value model, the carrying amount effectively includes the finance lease liability and is presented on a net basis.

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

**(h) Inventories**

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

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

**(i) Impairment**

**(i) Non-derivative financial assets**

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

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

*Loans and receivables and held-to-maturity investment securities*

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

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

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

### *Available-for-sale financial assets*

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

### **(ii) Non-financial assets**

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

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

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

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

**(j) Share-based payments**

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

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

**(k) Provisions**

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

**(l) Rental income from investment property**

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

**(m) Lease payments**

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

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

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

*Determining whether an arrangement contains a lease*

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

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

**(n) Finance income and costs**

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

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

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

**(o) Income tax expense**

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

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

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

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

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

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

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

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



**(p) Earnings per share**

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

**(q) Segment reporting**

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

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

**(r) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for six months ended 30 June 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. Management plans to adopt these pronouncements when they become effective, and has not yet analyzed the likely impact of these new standards on its consolidated financial statements.

- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognized in their entirety or where the assets are derecognized in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendment to International Financial Reporting Standard IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with International Financial Reporting Standard IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets

using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

#### 4 Investment properties and property under construction

Movements in investment properties for six months ended 30 June 2011 are as follows:

(in thousands of USD)

	Freehold land	Leasehold land	Total
<b>At 1 January 2010</b>	31,110	37,721	68,831
Assets acquisition*	5,352	-	5,352
Construction	2,277	1,051	3,328
Disposal of investment property	(1,413)	-	(1,413)
Fair value gain (loss) on revaluation	(337)	828	491
<b>At 31 December 2010</b>	36,989	39,600	76,589
Construction	1,488	1,085	2,573
Disposal of investment property	(279)	-	(279)
Fair value gain (loss) on revaluation	(2,287)	15	(2,272)
<b>At 30 June 2011</b>	<b>35,911</b>	<b>40,700</b>	<b>76,611</b>

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

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

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

The estimation of fair value is made using a net present value calculation based on certain assumptions, the most important of which as at 30 June 2011 are as follows:

- monthly rental rates which were based on current rental rates ranging from USD 9 to USD 48 per sq.m.
- development costs based on current construction prices
- discount rates -10%
- developers profit ranging from –20% to 30%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

As at 31 December 2010 respective assumptions were as follows:

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

## 5 Prepayments for land

During six months ended 30 June 2011 the Group hasn't made any prepayments for land acquisition. The total amount of prepayments for land was USD 124,094 thousand as at 30 June 2011.

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

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

<b>Date of signing</b>	<b>Pledgor</b>	<b>Collateral</b>	<b>Amount of prepayment for land</b>	<b>Assigned value of the collateral</b>
<i>(In thousands of USD)</i>				
24 December 2008	K Zatyshna Domivka LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 85.5 hectares located in the Kyiv region	<b>16,575</b>	<b>16,500</b>
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	<b>54,500</b>	<b>54,500</b>

25 December 2008	Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 156.0 hectares located in the Kyiv region	<b>53,019</b>	<b>53,019</b>
			<hr/>	<hr/>
			<b>124,094</b>	<b>124,019</b>
			<hr/> <hr/>	<hr/> <hr/>

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

## 6 Investments in associates

The Group has the following investments in associates as at 30 June 2011:

Name	Country	Ownership/Voting	
		30 June 2011	31 December 2010
Henryland Group Ltd.	British Virgin Islands	<b>38.00%</b>	38.00%
Hindale Ltd.	Cyprus	<b>18.77%</b>	18.77%
Arricano Group Ltd.	Cyprus	<b>16.67%</b>	16.67%

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

	Ownership	Total assets	Total liabilities	Revenues	Profit/(loss)
<i>(in thousands of USD)</i>					
<b>31 December 2010</b>					
Henryland Group Ltd.	38.00%	36,764	6,261	3,265	5,778
Hindale Ltd.	18.77%	20,380	3,318	-	640
Arricano Group Ltd.	16.67%	463,209	276,297	14,466	43,009
		<hr/>	<hr/>	<hr/>	<hr/>
		520,353	285,876	17,731	49,427
<b>30 June 2011</b>					
Henryland Group Ltd.	<b>38.00%</b>	<b>40,493</b>	<b>4,045</b>	<b>1,933</b>	<b>4,039</b>
Hindale Ltd.	<b>18.77%</b>	<b>17,082</b>	<b>2,748</b>	-	<b>(2,723)</b>
Arricano Group Ltd.	<b>16.67%</b>	<b>412,993</b>	<b>275,000</b>	<b>11,995</b>	<b>8,883</b>
		<hr/>	<hr/>	<hr/>	<hr/>
		<b>470,568</b>	<b>281,793</b>	<b>13,928</b>	<b>10,199</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

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

During the period of six months ended 30 June 2011 the estimated fair value of the call option decreased by USD 661 thousand due to a decrease in the estimated fair value of investment properties relating to the Komarova project. The loss on revaluation of the call option is recognized in profit or loss in net financial income.

On 10 September 2010 the Parent company entered into a Shareholders Agreement (SHA) with Expert Capital SA (currently - Retail Real Estate SA) and Arricano Trading Limited (Arricano) and has acquired a 35% interest in Arricano, through the issue of 1,077 new shares by Arricano for a consideration of USD 30,000 thousand payable by the Parent company in cash. Arricano is a leading developer of upscale shopping centres in Ukraine, and the investment of USD 30,000 thousand is earmarked to fund further development of shopping centres and to repay certain existing Arricano debt. Arricano holds a 100% interest in four shopping centres across Ukraine and a shareholding of 50% minus one share in the Sky Mall shopping centre in Kyiv (the Sky Mall project). In relation to the Sky Mall project, Arricano has entered into a call option agreement with its local partner in this project, whereby it can acquire the remaining shareholding of 50% plus one share at a pre-agreed valuation of USD 51,000 – 56,000 thousand, depending on the timing (the Sky Mall Call Option). The period of execution of the Sky Mall Call Option is from 15 November 2010 to 15 March 2011.

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

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

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

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

As at 30 June 2011 the net assets of Arricano include the following:

	<b>Total recognized carrying values</b>
<i>(in thousands of USD)</i>	
Net assets attributable to Arricano	117,667
Loans receivable planned to be assigned to Arricano	118,549
Maximum consideration for call option adjusted for equity attributable to non-controlling interest	(35,674)
	<hr/>
<b>Net assets</b>	<b>200,542</b>
	<hr/>

A substantial part of Arricano's net assets is represented by a pool of loans receivable in the amount of USD 139,659 thousand, including accrued interest of USD 35,794 thousand, that were extended by a financial vehicle controlled by Expert Capital SA to the Sky Mall project to finance the real estate assets of the Sky Mall project. As a part of the SHA, these loans receivable together with accrued interest are to be assigned to Arricano for a nominal price of EUR 1 each, and as of the date of this report, are in the process of being assigned to Arricano. These loans receivable were adjusted for repayment of loans provided by Swedbank to the Sky Mall project in the amount of USD 21,110 thousand.

#### *Reduction of shareholding in associate*

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

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

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

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

### Significant influence

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

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

## 7 Loans receivable

Included in long-term loans receivable is a loan provided by the Group to Commercial Construction LLC at a 2% fixed interest rate. The purpose of the loan was to finance construction of show-case houses in the cottage community Green Hills. As at 30 June 2011 long-term loans receivable due from Commercial Construction LLC totals USD 1,037 thousand, including accrued interest of USD 13 thousand (31 December 2010: USD 1,439 thousand, including accrued interest of USD 64 thousand). The remaining part of long-term loans receivable represents a loan provided by the Group to Kalinovka Construction LLC at a 10% fixed interest rate. The primary purpose of this loan is to finance the construction of show-case houses in the project Green Hills and Riviera Villas. As at 30 June 2011 the total outstanding amount of this loan is USD 3,078 thousand, including accrued interest of USD 103 thousand (31 December 2010: USD 671 thousand, including accrued interest of USD 21 thousand).

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

## 8 Inventories

Inventories as at 30 June 2011 are as follows:

<i>(in thousands of USD)</i>	<b>Consolidated 30 June 2011</b>	Consolidated 31 December 2010
Trading property	<b>11,300</b>	12,200
Other inventory	<b>40</b>	36
Construction materials	<b>2</b>	1
<b>Total</b>	<b>11,342</b>	12,237

As at 30 June 2011 and 31 December 2010 trading property is represented by the gated community Sadok Vyshnevyi (38 newly constructed houses and relevant land plots). Sadok Vysnevyi was acquired by the Group as a settlement of the Group's deposit in Rodovid bank of USD 12,675 thousand in 2009.

As at 30 June 2011 trading property of USD 11,300 thousand represents the net realizable value as defined by the independent appraiser. The revaluation loss for six months ended 30 June 2011 of USD 900 thousand (31 December 2010: USD 10 thousand) was recognized in profit or loss.

## 9 Trade and other receivables

In January 2010 a portion of the loan to Commercial Construction LLC totaling USD 841 thousand (including accrued interest of USD 33 thousand) attributable to the project Riviera Villas was assigned to Intendancy Ltd, the Group's partner in project Riviera Villas, provided that Intendancy Ltd pay to the Group USD 841 thousand. The aforesaid consideration shall be paid to the Group within 180 banking days from the date of registration of the assigned loan contract with the National Bank of Ukraine. During the six month 2011 the amount of USD 81 thousand was received by the Group as part of aforesaid consideration. As at 30 June 2011 remaining of the debt of Intendancy LTD is included in other receivables.

Trade and other receivables as at 30 June 2011 are as follows:

	<b>Consolidated 30 June 2011</b>	Consolidated 31 December 2010
<i>(in thousands of USD)</i>		
Other receivables	<b>927</b>	1,316
Prepayments made	<b>412</b>	134
Accrued interest	<b>75</b>	64
	<hr/>	<hr/>
<b>Total</b>	<b>1,414</b>	1,514
	<hr/> <hr/>	<hr/> <hr/>

## 10 Loans due from Group companies

The loans due from Group companies are denominated in USD, unsecured, interest bearing (\_5%-12%) and repayable on demand.

## 11 Cash and cash equivalents

Cash and cash equivalents as at 30 June 2011 are as follows:

	<b>Consolidated 30 June 2011</b>	Consolidated 31 December 2010
<i>(in thousands of USD)</i>		
Bank balances	<b>16,160</b>	16,415
Call deposits	<b>22,270</b>	28,500
	<hr/>	<hr/>
<b>Total</b>	<b>38,430</b>	<b>44,915</b>
	<hr/> <hr/>	<hr/> <hr/>

The following table represents an analysis of cash and cash equivalents by rating agency designation based on Fitch ratings or their equivalent as at 30 June 2011:



	<b>Consolidated 30 June 2011</b>	Consolidated 31 December 2010
<i>(in thousands of USD)</i>		
Bank balances		
AA	4	-
AA-	452	236
BB+	-	623
B	15,543	15,556
B-	65	-
not rated	96	-
	<hr/>	<hr/>
	<b>16,160</b>	16,415
Call deposits		
AA	15,280	16,500
AA-	6,990	12,000
B-	-	-
not rated	-	-
	<hr/>	<hr/>
	<b>22,270</b>	28,500
	<hr/>	<hr/>
<b>Total</b>	<b>38,430</b>	44,915
	<hr/> <hr/>	<hr/> <hr/>

## 12 Equity

Movements in share capital and share premium for six months ended 30 June 2011 are as follows:

	<b>Ordinary shares</b>	<b>Amount</b>
<i>(in thousands of USD, except for share numbers)</i>		
<i>Number of shares unless otherwise stated</i>		
<b>Outstanding as at 31 December 2007, fully paid</b>	140,630,300	2,813
Issued during 2008	1,698,416	34
Own shares acquired and cancelled	(8,943,000)	(179)
	<hr/>	<hr/>
<b>Outstanding as at 31 December 2008, fully paid</b>	133,385,716	2,668
Own shares acquired and cancelled	(15,669,201)	(314)
	<hr/>	<hr/>
<b>Outstanding as at 31 December 2009, fully paid</b>	117,716,515	2,354

	Ordinary shares	Amount
<i>(in thousands of USD, except for share numbers)</i>		
<i>Number of shares unless otherwise stated</i>		
<b>Outstanding as at 31 December 2010, fully paid</b>	117,716,515	2,354
<b>Outstanding as at 30 June 2011, fully paid</b>	<b>117,716,515</b>	<b>2,354</b>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

As part of an initial public offering on 1 June 2007 104,000,000 ordinary shares were sold to certain institutional investors at a price of USD 2.00 per ordinary share, raising gross proceeds of USD 208,000 thousand. In addition 36,630,100 ordinary shares were sold on 29 November 2007 at a price of USD 2.73 per ordinary share, raising gross proceeds of USD 100,000 thousand. The difference between net proceeds per share and par value is recognized as share premium.

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

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

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

## 13 Income tax expense

### (a) Income tax expense

Income taxes for six months ended 30 June are as follows:

	Consolidated	Consolidated
	30 June 2011	30 June 2010
<i>(in thousands of USD)</i>		
Current tax expense	-	(50)
Deferred income tax benefit (expense)	175	(328)
	<hr/>	<hr/>
Total income tax benefit (expense)	175	(378)
	<hr/> <hr/>	<hr/> <hr/>

Based on legislation enacted in December 2010, on 1 January 2011, a new tax code became effective in Ukraine. Among other changes the new tax code changes the corporate profit tax rates. A reduced rate of

23% applies from 1 April 2011 and will gradually decrease further to 21% and 19% in 2012 and 2013, respectively, and from 2014 onwards the tax rate will be fixed at 16%.

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

**(b) Reconciliation of effective tax rate**

The difference between the total expected income tax (benefit) expenses for six months ended 30 June 2011 computed by applying the Ukrainian statutory income tax rate to loss before tax and the reported tax (benefit) expense is as follows:

<i>(in thousands of USD)</i>	<b>For six month ended 30 June 2011</b>	<b>%</b>	<b>For six month ended 30 June 2011</b>	<b>%</b>
Loss before income tax	<b>(3,109)</b>	<b>100</b>	(956)	100
Computed expected income tax (benefit) expense at statutory rate	<b>(714)</b>	<b>23</b>	(237)	25
Effect of income taxed at lower tax rates	<b>(1,050)</b>	<b>34</b>	(282)	30
Reduction in tax rate	<b>178</b>	<b>(6)</b>	-	-
Non-taxable income (income earned by holding companies)	<b>51</b>	<b>(2)</b>	1	(0)
Change in unrecognized temporary differences	<b>-</b>	<b>-</b>	756	(65)
Non-deductible expenses	<b>1,360</b>	<b>(44)</b>	140	(15)
<b>Effective income tax (benefit) expense</b>	<b>(175)</b>	<b>6</b>	378	(25)

**(c) Recognized deferred tax liabilities**

The movement in deferred tax liabilities for six months ended 30 June 2011 is as follows:

<i>(in thousands of USD)</i>	<b>1 January 2011 liability</b>	<b>Recognized in income</b>	<b>Acquisition of subsidiary</b>	<b>30 June 2011, liability</b>
Investment property	<b>(11,926)</b>	<b>175</b>	-	<b>(11,751)</b>
Deferred tax liabilities	<b>(11,926)</b>	<b>175</b>	-	<b>(11,751)</b>

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

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

Deferred Tax liabilities	(14,832)	3,742	(836)	(11,926)
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## 14 Trade and other payables

Trade and other payables as at 30 June 2011 are as follows:

	<b>Consolidated</b>	Consolidated
	<b>30 June 2011</b>	31 December 2010
<i>(in thousands of USD)</i>		
Management fees	2,222	2,301
Other payables and accrued expenses	1,758	1,569
<b>Total current liabilities</b>	<b>3,980</b>	3,870

## 15 Management fee

Management fee for six months ended 30 June are as follows:

	<b>Consolidated</b>	Consolidated
	<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
<i>(in thousands of USD)</i>		
Management fee	2,222	2,217
<b>Total</b>	<b>2,222</b>	2,217

### Initial Management Agreement

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

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

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

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

The Manager was also entitled to receive an annual performance fee calculated by reference to the increase in the net asset value (NAV) per share over the relevant accounting period. For these purposes NAV was the aggregate of the consolidated non-current and current assets adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the property valuation policy less its consolidated liabilities (including non-controlling interest and payables related to management fees) provided that, in respect of the Group's first accounting reference period, the opening NAV was equal to the net proceeds of the initial sale of shares.

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

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

### **Revised Management Agreement**

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

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

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

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

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

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

The total management fee for six months ended 30 June 2011 is USD 2,222 thousand (30 June 2010: USD 2,217 thousand).

## 16 Share-based payments

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

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

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

	Options granted to Mr. Van der Heijden	Warrants granted to Dragon Capital Partners		Warrants granted to ZAI	Total
		16 May 2007	29 November 2007		
Date granted	16 May 2007	16 May 2007	29 November 2007	16 May 2007	
Number of instruments	100,000	5,200,000	1,831,505	1,040,000	8,171,505
Vesting period	1-5 years	Immediately	Immediately	Immediately	
Expiry dates	16 May 2008 - 16 May 2012	16 May 2012	29 November 2012	16 May 2012	
Exercise price	USD 2.00	USD 2.00	GBP 1.30	USD 2.00	
Share-based compensation (USD thousand) during 2010	6	-	-	-	6
Share-based compensation (USD thousand) during six months ended 30 June 2011	4	-	-	-	4

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

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

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

There were no forfeited or exercised options during six months ended 30 June 2011 and the year ended 31 December 2010.

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

Key management personnel	Dragon Capital Partners Ltd		Zimmerman Adams International Ltd
	Initial share issue	Secondary share issue	

(in USD, except for number of shares and percent)

	Key management personnel	Dragon Capital Partners Ltd		Zimmerman Adams International Ltd
		Initial share issue	Secondary share issue	
<i>(in USD, except for number of shares and percent)</i>				
Fair value at grant date	0.82	0.82	0.82	0.82
Share price	2.00	2.00	2.73	2.00
Exercise price	2.00	2.00	2.73	2.00
Expected volatility, percent	33.80	33.80	33.80	33.80
Option life, years	1 - 5	5	5	5
Expected dividends, percent	0.00	0.00	0.00	0.00
Risk free interest rate, percent	6.39	6.39	6.39	6.39

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

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

	Weighted average fair value	Weighted average exercise price	Number of options and warrants
<i>(in USD, except for number of shares)</i>			
Outstanding at 31 December 2007	0.88	2.16	8,171,505
Exercisable at 31 December 2007	0.88	2.17	8,071,505
Exercisable at 31 December 2008	0.83	2.16	8,081,505
Exercisable at 31 December 2009	0.88	2.01	8,096,505
Exercisable at 31 December 2010	0.71	2.00	8,116,505
Exercisable at 30 June 2011	0.70	2.00	8,141,505

## 17 Administrative expenses

Administrative expenses for six months ended 30 June are as follows:

	Consolidated	Consolidated
	For six months ended 30 June 2011	For six months ended 30 June 2010
<i>(in thousands of USD)</i>		
Professional services	261	541
Advertising	220	124
Wages and salaries	106	123
Audit fees	2	15
Directors' fees	63	63

Bank charges	23	16
Insurance	8	9
Share-based compensation	4	6
Travel expenses	-	25
Other	183	269
	<hr/>	<hr/>
<b>Total administrative expenses</b>	<b>870</b>	<b>1,190</b>
	<hr/> <hr/>	<hr/> <hr/>

## 18 Net finance income

Net finance income for six months ended 30 June is as follows:

	<b>Consolidated</b>	Consolidated
	<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
(in thousands of USD)		
Interest income	378	713
Financial instruments (option) loss	(661)	-
Currency exchange losses	4	-
	<hr/>	<hr/>
<b>Net financial income</b>	<b>(279)</b>	<b>713</b>
	<hr/> <hr/>	<hr/> <hr/>

## 19 Contingencies

### (a) Litigation

As at 30 June 2011 the land plot leased by Hindale Ltd. relating to project Avenue Shopping Mall on Komarova Avenue, Kyiv, is not cleared of garages and there are a number of law suits relating to this project in which Hindale Ltd. is involved. These law suits and difficulties in obtaining relevant permits may delay the construction works on the land plot. Additionally, taking into account the short term period of the lease of the land plot on which Hindale Ltd. is planning to construct the real estate, Hindale Ltd. may not be able to prolong the lease term at the expiry date of the land lease agreement should the construction works not start before 2012. The Group has won all law suits to date and the management is confident that the Group will prevail in ongoing law suits. Additionally management believes that they will obtain all relevant permits and the construction works will start as planned and that the lease term will be extended if needed without additional material costs and delays. As at 30 June 2011 the Group's effective ownership in the Avenue Shopping Mall project amounts to USD 2,690 thousand (31 December 2010: USD 3,716 thousand).

### (b) Taxation contingencies



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

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

### (c) Insurance

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

### (d) Capital expenditure and other commitments

As at 30 June 2011 outstanding commitments to finance construction of investment properties and other commitments amount to USD 17,913 thousand (31 December 2010: USD 17,913 thousand).

## 20 Earnings per share

### Basic earnings per share

The calculation of basic earnings per share is based upon the net loss for six months ended 30 June 2011 attributable to the ordinary shareholders of USD 2,934 thousand ( 2010: net loss of USD 1,334 thousand) and the weighted average number of ordinary shares outstanding calculated as follows:

<i>(in number of shares weighted during the period outstanding)</i>	<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
Shares issued on incorporation on 23 February 2007	2	2
Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May 2007	<b>198</b>	198
Shares issued on 1 June 2007	<b>104,000,000</b>	104,000,000
Shares issued on 29 November 2007	<b>36,630,100</b>	36,630,100
Shares issued on 24 April 2008	<b>1,698,416</b>	1,698,416
Own shares buyback in 2008	<b>(8,943,000)</b>	(8,943,000)
Own shares buyback in 2009	<b>(15,669,201)</b>	(15,669,201)
	<hr/>	<hr/>

<b>Weighted average number of shares for the period</b>	<b>117,716,515</b>	117,716,515
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### Diluted earnings per share

The calculation of diluted earnings per share is based on the net loss for six months ended 30 June 2011 attributable to ordinary shareholders of USD 2,934 thousand (2010: net loss of USD 1,334 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

	<b>For six months ended 30 June 2011</b>	For six months ended 30 June 2010
<i>(in number of shares)</i>		
Weighted average number of shares for the period ended 30 June	<b>117,716,515</b>	117,716,515
Weighted average number of shares for the period (fully diluted)	<b>117,716,515</b>	117,716,515

Because during first half of year 2011 and first half of year 2010 the average market price of ordinary shares was below the exercise price of the share options and warrants these options and warrants have no dilutive effect.

## 21 Financial risk management

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

### (a) Risk management policy

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

### (b) Credit risk

When the Group enters into an arrangement exposing it to credit risk, it does so only on the basis of due diligence research and the reputation of the counterparty. As at 30 June 2011 the largest exposures relate to prepayments made under three land acquisition contracts totaling USD 124,094 thousand (31 December 2010: USD 124,094 thousand). This latter risk is mitigated by pledge agreements for corporate rights of the pledger in the entities that own the land to be acquired.

### (i) Trade and other receivables

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

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

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

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

## (ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 June 2011 is as follows:

<i>(in thousands of USD)</i>	<b>Consolidated For six months ended 30 June 2011</b>	Consolidated For six months ended 30 June 2010
Loans receivable	4,115	2,456
Trade and other receivables	1,414	1,514
Cash and cash equivalents	38,430	44,915
	<b>43,959</b>	<b>48,885</b>

## (c) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including interest payments as of 30 June 2011:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>			
		<b>Total</b>	Within one year	2-5 years	More than 5 years
<i>(in thousands of USD)</i>					
Finance lease liability	3,273	45,539	1,009	4,033	40,497
Trade and other payable	3,980	3,980	3,980	-	-
	<b>3,980</b>	<b>3,980</b>	<b>4,989</b>	<b>4,033</b>	<b>40,497</b>

The finance lease liability comprises the Group's liability for leasehold land, which is presented on a net basis within the carrying amount of investment property (see note3(g)).

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

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

#### (d) Interest rate risk

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

As at 30 June 2011 and 31 December 2010 all financial assets and liabilities have fixed interest rates. The Group does not account for fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates as at 30 June 2011 would not affect profit or loss.

#### (e) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily UAH and EUR. The exposure to foreign currency risk as at 30 June 2011 is as follows based on notional amounts:

<i>(in thousands of USD)</i>	30 June 2011			31 December 2011		
	EUR	GBP	UAH	EUR	GBP	UAH
<b>Current assets</b>						
Cash and cash equivalent	13	-	637	13	2	401
Trade and other receivables	12	-	399	9	-	1,059
<b>Current liabilities</b>						
Trade and other payables	(27)	(9)	(366)	(67)	(11)	-
<b>Net (short) long position</b>	<b>(2)</b>	<b>(9)</b>	<b>670</b>	<b>(45)</b>	<b>(9)</b>	<b>1,460</b>

The foreign exchange rates of the USD as at 30 June 2011 are as follows:

Currency	30 June 2011	31 December 2010
EUR	1.4425	1.3372
GBP	1.6031	1.5545
UAH	0.1254	0.1265

## (f) Fair values

Except for long-term loans receivable, the fair values of all assets and liabilities are assumed to equal their carrying values due to their short-term nature and market interest rates at period end.

## (g) Capital management

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

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

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

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

## 22 Related party transactions

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

#### (i) Key management remuneration

Key management compensation included in the statement of comprehensive income for the year ended 30 June is as follows:

	For six months ended 30 June 2011	For six months ended 30 June 2010
<i>(in thousands of USD)</i>		
Directors' fees	63	63
Share-based payment expense (options granted)	4	6
Reimbursement of travel expenses	-	2
	<hr/>	<hr/>
Total management remuneration	67	71
	<hr/> <hr/>	<hr/> <hr/>

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

The Directors own shares in the Parent Company as at 30 June are as follows:

	30 June 2011		31 December 2010	
	Number of shares	Ownership, %	Number of shares	Ownership, %
Aloysius Johannes Van der Heijden	200,000	0.17	200,000	0.17
Tomas Fiala	9,804,069	8.33	8,529,916	7.25
	<b>10,004,069</b>	<b>8.5</b>	8,729,916	7.42

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

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

In May 2011 Dragon Capital Group increased its shareholding from 8,529,153 shares to 9,804,069 ordinary shares of 1p each through the acquisition of 1,274,153 shares at average price of 56 pence per share, representing an increase in its shareholding from 7.25 to 8.33 per cent of the issued share capital of the Company.

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

Expenses incurred and outstanding balances of transactions for six months ended 30 June are as follows:

<i>(in thousands of USD)</i>	30 June 2011		31 December 2010	
	Transactions	Balance outstanding	Transactions	Balance outstanding
Disposal of subsidiary	-	-	-	277
Management fee for project management to be paid to Dragon Development	<b>66</b>	-	170	33
Expenses to be reimbursed to Manager	-	<b>50</b>	50	50
	<b>66</b>	<b>50</b>	220	360

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

## **23 Events subsequent to the reporting date**

No material events took place after the reporting date.