# Dragon – Ukrainian Properties & Development plc.

# Consolidated financial statements
30 June 2010

*These consolidated financial statements contain 43 pages*

## Contents

| *(in thousands of USD)* | *Note* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | *5* | **63,353** | 62,500 |
| Property under construction | *5* | **7,267** | 6,331 |
| Prepayments for land | *6* | **124,062** | 121,487 |
| Investments in subsidiaries | | **-** | - |
| Investments in associates | *7* | **14,598** | 14,184 |
| Long-term loan | *8* | **2,501** | 2,702 |
| Property and equipment | | **57** | 63 |
| Intangible assets | | **39** | 45 |
| **Total non-current assets** | | **211,877** | 207,312 |
| **Current assets** | | | |
| Inventories | *9* | **12,233** | 12,242 |
| Loans to Group companies | | **-** | - |
| Trade and other receivables | *10* | **3,061** | 3,076 |
| Prepaid income tax | | **17** | 16 |
| Financial Instruments (call option) | *7* | **2,412** | 2,437 |
| Cash and cash equivalents | *11* | **80,721** | 86,195 |
| **Total current assets** | | **98,444** | 103,966 |
| **Total assets** | | **310,321** | 311,278 |

The consolidated statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

| *(in thousands of USD)* | *Note* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| **Equity** | *12* | | |
| Share capital | | **2,354** | 2,354 |
| Share premium | | **282,077** | 282,077 |
| Retained earnings | | **8,912** | 10,029 |
| **Total equity attributable to equity holders of the Parent Company** | | **293,343** | 294,460 |
| **Non-controlling interest** | | **(774)** | (563) |
| **Total equity** | | **292,569** | 293,897 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | *13* | **15,160** | 14,832 |
| **Total non-current liabilities** | | **15,160** | 14,832 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | **2,591** | 2,537 |
| Income tax payable | | **1** | 12 |
| **Total current liabilities** | | **2,592** | 2,549 |
| **Total liabilities** | | **17,752** | 17,381 |
| **Total equity and liabilities** | | **310,321** | 311,278 |

These consolidated financial statements were approved by management on 30 July 2010 and were signed on its behalf by:

| | |
|---|---|
| Chairman of the board | Aloysius Wilhelmus Johannes Van der Heijden |
| Non-executive director | Fredrik Svinhufvud |

The consolidated statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

| *(in thousands of USD)* | *Note* | **For six months ended 30 June 2010 Consolidated** | For six months ended 30 June 2009 Consolidated |
|---|---|---|---|
| Rental income | | **294** | 320 |
| Profit (loss) from sales of investment property | | **(38)** | - |
| Profit (loss) on revaluation of investment properties | *5* | **1,087** | (7,262) |
| Write-down of trading property to net realizable value | | **(10)** | (426) |
| Management fee | *15* | **(2,217)** | (2,231) |
| Administrative expenses | *17* | **(1,190)** | (566) |
| Other income | | **13** | 2 |
| Other expenses | | **(26)** | - |
| **Loss from operating activities** | | **(2,087)** | (10,163) |
| Gain on disposal of subsidiaries | *4* | **4** | - |
| Gain on recognition of joint venture | *7* | **-** | - |
| Net financial income | *18* | **713** | 765 |
| Share of the profit (loss) of associates | *7* | **414** | 542 |
| **(Loss) profit before income tax** | | **(956)** | (8,856) |
| Income tax benefit (expense) | *13* | **(378)** | 1,285 |
| **Total comprehensive income (loss) for the period** | | **(1,334)** | (7,571) |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **(1,123)** | (7,571) |
| Non-controlling interest | | **(211)** | - |
| **Total comprehensive income (loss) for the period** | | **(1,334)** | (7,571) |
| **(Loss) earnings per share** | | | |
| Basic (loss) earnings per share (in USD) | *20* | **(0.01)** | (0.058) |
| Diluted (loss) earnings per share (in USD) | *20* | **(0.01)** | (0.058) |

The Directors believe that all results derive from continuing activities.

The consolidated statements of comprehensive income (loss) are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

| *(in thousands of USD)* | *Note* | **For six months ended 30 June 2010** | For six months ended 30 June 2009 |
|---|---|---|---|
| ***Cash flow from operating activities*** | | | |
| Profit (loss) before income tax | | **(956)** | (8,856) |
| *Adjustments for:* | | | |
| Write-down of trading property to net realisable value | | **10** | 426 |
| Gain on disposal of subsidiary | *4* | **(4)** | - |
| Changes of value Financial Instruments (option) | | **25** | - |
| Gain on acquisition of joint venture | | **-** | - |
| Gain on sale of property, equipment | | **-** | (2) |
| Profit (loss) on revaluation of investment properties | | **(1,087)** | 7,262 |
| Depreciation | | **13** | 9 |
| Share of the loss/(profit) of associates | | **(414)** | (542) |
| Net financial income | *18* | **(713)** | (765) |
| **Operating cash flow before changes in working capital** | | **(3,126)** | (2,468) |
| Decrease (increase) in inventories | | **(1)** | (12,586) |
| Decrease (increase) in trade and other receivables | | **218** | (289) |
| Decrease (increase) in loans to Group companies | | **-** | - |
| Increase (decrease) in trade and other payables | | **54** | (243) |
| Share based payments | | **6** | 9 |
| Income tax paid | | **(62)** | (7) |
| **Cash flows (used in) from operating activities** | | **(2,911)** | (15,584) |

The consolidated statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

| *(in thousands of USD)* | *Note* | **For six months ended 30 June 2010 Consolidated** | For six months ended 30 June 2009 Consolidated |
|---|---|---|---|
| ***Cash flow from investing activities*** | | | |
| Interest received | | **511** | 556 |
| Acquisition of investment properties | *5* | **(702)** | (2,733) |
| Acquisition of property, equipment and intangible assets | | **(1)** | (7) |
| Prepayments for land | *6* | **(2,575)** | (3,547) |
| Disbursement of long-term loan | *8* | **201** | (1,042) |
| Acquisition of subsidiary and non-controlling interest, net of cash acquired | | **-** | (8) |
| **Cash flows used in investing activities** | | **(2,566)** | (6,781) |
| ***Cash flow from financing activities*** | | | |
| Purchase of own shares | | **-** | (10,363) |
| **Cash flows used in financing activities** | | **-** | (10,363) |
| **Net (decrease) increase in cash and cash equivalents** | | **(5,477)** | (32,728) |
| Cash and cash equivalents at 1 January | | **86,195** | 121,216 |
| Effect of the foreign exchange fluctuation on cash balances | | **3** | (36) |
| **Cash and cash equivalents at 30 June 2010** | | **80,721** | 88,452 |

The consolidated statements of Cash Flow are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

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

| *(In thousands of USD)* | Attributable to equity holders of the Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total** |
| **Balances at 1 January 2010** | **2,354** | **282,077** | **10,029** | **294,460** | **(563)** | **293,897** |
| **Total comprehensive loss for the period** | | | | | | |
| Net loss for the year ended 30 June 2010 | **-** | **-** | **(1,123)** | **(1,123)** | **(211)** | **(1,334)** |
| Total comprehensive loss for the period | | | **(1,123)** | **(1,123)** | **(211)** | **(1,334)** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Share based compensation | **-** | **-** | **6** | **6** | **-** | **6** |
| Total contributions by and distributions to owners | **-** | **-** | **6** | **6** | **-** | **6** |
| **Total transactions with owners** | **-** | **-** | **6** | **6** | **-** | **6** |
| **Balances at 30 June 2010** | **2,354** | **282,077** | **8,912** | **293,343** | **(774)** | **292,569** |

The consolidated statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 43.

# 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 AIM Market 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 2010 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint venture.

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

## (b) Business environment

Ukraine's political risk has gone down considerably since new president was elected in February 2010. The new Cabinet is better suited to implement unpopular measures demanded by IFIs. The ruling coalition enjoys a sufficient majority in Verkhovna Rada (Ukrainian parliament) to pass legislation backing the government's reform program. With next regular parliamentary elections not due until late 2012 and political negotiations going on to schedule local elections for end-October 2010, the new administration is close to securing for itself the rare prospect of more than two years without major elections — and thus a window of opportunity for many necessary but unpopular reforms which previous Ukrainian governments were hesitant about.

Ukraine is expected to maintain its status as one of the fastest growing economies in the region with real GDP to advance by 5.5% this year and 4.5% in 2011.The IMF's new lending program ($15bn) will substantially ease Ukraine's budget deficit financing pressures for the rest of the year. Cooperation with the Fund will remain a key factor for Ukraine to ensure that external financing remains cheap and relatively easily accessible in 2011. S&P have upgraded Ukraine's sovereign rating by one notch to B+ on the back of IMF deal and other rating agencies are expected to follow suit.

However, operations in Ukraine still involve risks that do not typically exist in other markets. The accompanying financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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

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

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

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

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

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

## 2 Basis of preparation

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

These consolidated 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 financial statements are included in the following notes:

- note 5 - valuation of investment property
- note 16 - measurement of share-based payments.

## (e) Changes in accounting policies

Starting from 1 January 2009 as a result of new standards coming into effect, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements
- Accounting for business combinations
- Accounting for consolidated and separate financial statements

### *(i)* Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board, which collectively is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Management has 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 actuals versus budgeted is also done on the basis of individual projects.

## *(ii)* Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

## *(iii)* Accounting for business combination

The Group has adopted early IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) for all business combinations occurring in the financial year starting 1 January 2009. All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. This change in accounting policy was applied prospectively and had no material impact on earnings per share.

# 3 Significant accounting policies

The accounting policies set out below have been consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

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

The results of subsidiaries acquired during the year are included in the statement of comprehensive income from the effective date of acquisition.

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

Consolidated subsidiaries include the following:

| **Name** | | **Country of incorporation** | **% of ownership** | |
|---|---|---|---|---|
| | | | **2010** | 2009 |
| Bi Dolyna Development LLC | | Ukraine | **100%** | 100% |
| EF Nova Oselya LLC | | Ukraine | **100%** | 100% |
| Glangate LTD | | Cyprus | **100%** | 100% |
| Grand Development LLC | *(1) | Ukraine | **-** | 100% |
| Hindale LTD | | Cyprus | **18.77%** | 18.77% |
| J Komfort Neruhomist LLC | | Ukraine | **100%** | 100% |
| Korona Development LLC | | Ukraine | **100%** | 100% |
| Landshere LTD | | Cyprus | **95%** | 95% |
| Landzone LTD | | Cyprus | **100%** | 100% |
| Linkdell LTD | | Cyprus | **100%** | 100% |
| Linkrose LTD | | Cyprus | **100%** | 100% |
| Mountcrest LTD | | Cyprus | **100%** | 100% |
| OJSC "Dom byta "Obolon" | | Ukraine | **98%** | 98% |
| Promtek LLC | | Ukraine | **18.77%** | 18.77% |
| Riverscope LTD | | Cyprus | **95%** | 95% |
| Startide LTD | | Cyprus | **100%** | 100% |
| Tradecom Inko LLC | | Ukraine | **-** | - |
| Ukrainian Development Holding LTD | | Cyprus | **100%** | 100% |
| Ukrainian Properties LTD | | Cyprus | **100%** | 100% |
| Noviy Region LLC | | Ukraine | **100%** | 100% |

(1) – subsidiary disposed

### *(ii)* Associates

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

### *(iii)* Joint ventures

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

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

Where the Group transacts with its jointly controlled entities, 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(g).

As at 30 June 2010 the Group has no joint ventures. As at 30 June 2009 the Group had the following joint ventures: Hindale LTD (Cyprus) and Promtek LLC (Ukraine).

### *(iv)* Transactions eliminated on consolidation

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

## (b) Foreign currency and operations

### *(i)* Foreign currency transactions

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

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

## (d) Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are netted against proceeds received.

## (e) Investment properties

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

### *(i)* Initial measurement and recognition

Investment properties are measured initially at cost, including related acquisition costs. Investment properties are derecognized on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized as gain or loss in the statement of comprehensive income.

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

### *(ii)* Subsequent measurement

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

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

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

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

After discussion with the independent appraiser, and considering the types of investment properties owned by the Group and their intended development, management chose to estimate the fair value of land using the "residual land value" income approach. Under this method, the fair value of the freehold and leasehold interest in land equals the residual value of land under development (assuming that the developer will meet the terms set for development).

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

### *(iii)* Property under construction

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

## (f) Property and equipment

### *(i)* Recognition and measurement

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

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

### *(ii)* Subsequent costs

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

### *(iii)* Depreciation

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

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

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

## (g) Goodwill

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

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

## (h) Inventories

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

## (i) Financial instruments

### *(i)* Non-derivative financial instruments

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

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

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

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

*Held-to-maturity investments*

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

*Available-for-sale financial assets*

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

*Financial assets at fair value through profit or loss*

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

*Other*

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

### *(ii)* Derivative financial instruments

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

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of comprehensive income when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the statement of comprehensive income.

## (j) Impairment

### *(i)* Financial assets

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

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

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

All impairment losses are recognised in the statement of comprehensive income.

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

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

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

An impairment loss is 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 the statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

## (k) Share based payments

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

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

## (l) Provisions

A provision is 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.

## (m) Rental income

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

## (n) Finance income and expenses

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

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

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

## (o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

## (q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. Management plans to adopt these pronouncements when they become effective, and has not yet analyzed the likely impact of these new standards on its consolidated financial statements.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required.

Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. The amendment will come into effect on 1 January 2010.

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 several phases and is intended to replace

International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on 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.

IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.

## 4 Disposal of subsidiaries

In February 2010 the Group sold Grand Development LLC for USD 32 thousand.

The disposal of the subsidiaries had the following effect on the Group's assets and liabilities on the date of disposal:

| *(in thousands of USD)* | **Recognised fair values on the date of disposal of subsidiary** |
|---|---|
| **Current assets** | |
| Trade and other receivables | **16** |
| Cash and cash equivalents | **12** |
| **Net identifiable assets and liabilities** | **28** |
| Groups share in the net identifiable assets and liabilities | **28** |
| Agreed price | **32** |
| **Gain on disposal of subsidiaries** | **4** |
| Consideration received | |
| Cash disposed | **(12)** |
| **Net cash outflow** | **(12)** |

## 5 Investment properties and property under construction

Movements in investment properties for the year ended 30 June 2010 are as follows:

| *(in thousands of USD)* | **Freehold land** | **Leasehold land** | **Total** |
|---|---|---|---|
| **At 1 January 2009** | 28,678 | 44,106 | 72,784 |
| Acquisitions | - | - | - |
| Assets acquisition* | - | 6,018 | 6,018 |
| Construction | 2,742 | 1,857 | 4,599 |
| Disposal of subsidiary and joint venture (Construction) | - | (850) | (850) |
| Disposal of subsidiary and joint venture (Investment property)** | - | (11,459) | (11,459) |
| Recognized as joint venture | (447) | - | (447) |
| Fair value losses on revaluation | 137 | (1,951) | (1,814) |
| **At 31 December 2009** | 31,110 | 37,721 | 68,831 |
| Acquisitions | - | - | - |
| Assets acquisition | - | - | - |
| Construction | **587** | **348** | **935** |
| Disposal of subsidiary and joint venture (Construction) | - | - | - |
| Disposal of subsidiary and joint venture (Investment property) | - | - | - |
| Disposal of investment property | **(233)** | - | **(233)** |
| Fair value gains (losses) on revaluation | **455** | **632** | **1,087** |
| **At 30 June 2010** | **31,918** | **38,701** | **70,620** |

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

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

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 2010 are as follows:

- monthly rental rates which were based on current rental rates ranging from USD 10 to USD 45 per sq.m.
- development costs based on current construction prices
- discount rates ranging from 12% to 24% p.a.
- developers profit – 15.0-28.0%
- growth rate –5.0-25.0%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

As at 31 December 2009 respective assumptions were as follows:

- monthly rental rates which were based on current rental rates ranging from USD 10 to USD 45 per sq.m.
- development costs based on current construction prices
- discount rates ranging from 14% to 27% p.a.
- developers profit – 20.0-25.0%
- all relevant licenses and permits, to the extent not yet received, will be obtained in accordance with the timetables as set out in the investment project plans.

## 6 Prepayments for land

During six months 2010 the Group made several prepayments for land acquisition totaling USD 1,575 thousand for land bank project and 1,000 thousand for Glangate project. As a result of these transactions the total prepayments for land were increased from USD 121,487 thousand as at 31 December 2009 to USD 124,062 thousand as at 30 June 2010.

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

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

| Date of signing | Pledgor | Collateral | Amount of prepayment for land | Assigned value of the collateral |
|---|---|---|---|---|
| | | | | *(In thousands of USD)* |
| 24 December 2008 | K Zatyshna Domivka LLC, Ukraine | The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 85.5 hectares located in the Kyiv region. | **16,500** | **16,500** |
| 25 December 2008 | Land Investments LLC, Ukraine | The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 191.5 hectares located in the Kyiv region. | **54,500** | **54,500** |
| 25 December 2008 | Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine | The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 156.0 hectares located in the Kyiv region. | **50,987** | **51,000** |
| | | | **121,987** | **122,000** |

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

On 28 October 2008 the Group concluded a preliminary agreement with Texville Ltd, Cyprus, for purchasing of a Ukrainian company (Ukr SPV) for USD 3,000 thousand (Glangate project). Ukr SPV is expected to receive a freehold right to a land plot with a total area of 3.7 hectares, located at Gagarina Avenue, Rivne, Ukraine (in the text below referred to as Land Plot-2). The first payment of USD 1,000 thousand was made upon signing of the preliminary agreement. The full settlement will be made upon obtaining by Ukr SPV the original state act of ownership over the land plot and signing a share purchase agreement for the acquisition of Ukr SPV.

According to Assignment agreement signed on 9 April 2010 between the Group, Texville Ltd (Seller-1) and Gonale Holdings Ltd (Seller-2), the Seller-1 agreed to assign and transfer to the Seller-2 all of its rights and obligations under the preliminary agreement in respect of acquisition of freehold rights to the land plots in Rivne.

On 15 April 2010 the Group signed amendment to the preliminary agreement between the Group and Gonale Holdings Ltd provided that the Preliminary Agreement is entered into by the Parties with the aim of the co-operation for the mutual benefits in the framework of the conclusion and subsequent execution of the following agreements:

- as concerns the acquisition by the Group from the Gonale Holdings Ltd of one hundred percent (100%), but not less than 99.99%, of the participatory interest in the share capital of the company that directly or indirectly owns the Land Plot-1 located at Gagarina Avenue, Rivne, Ukraine with total area 1.9 ha and USD 1,500 thousand purchasing price ;

- the Agency Agreement between the Group and Gonale Holdings Ltd. with respect to the purchasing by the Ukr SPV of the freehold right to the Land Plot-2 with a total area of 3.7 hectares, located at Gagarina Avenue, Rivne, Ukraine and USD 3,000 thousand purchasing price.

In June 2010 the Group paid 1,000 thousand for Land Plot-1 according the Preliminary Agreement.

## 7 Investments in associate and interest in joint venture

The Group has the following investments in associates and joint venture as at 30 June 2010:

| ***Name***<br>*(in thousands of USD)* | **Ownership** | **Total assets** | **Total liabilities** | **Carrying value of the investment** |
|---|---|---|---|---|
| Henryland Group Ltd. | **38%** | **35,893** | **5,545** | **11 532** |
| Hindale Ltd. | **18.77%** | **21,697** | **5,366** | **3 066** |
| | | **57,590** | **10,910** | **14 598** |

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.

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, the State Detailed Expertise was not procured and the land plot was not cleared of garages before October 2009) the Group decreased its stake in Hindale Ltd from 50% + 1 share to 18.77 % and as a result in Promtek LLC, which is 100% owned by Hindale LTD.

The share capital of Hindale Ltd was decreased by 1,539 ordinary shares held by the Group. In return, the Group received USD 5,000 thousand and an option to repurchase the 1,539 ordinary shares of Hindale Ltd for USD 5,000 thousand in accordance with the shareholders agreement. Because the fair value of of 1,539 shares of Hindale Ltd as at 31 December 2009 is equal to USD 7,437 thousand, the Group determines the excess of the fair value of the shares over purchase price in the amount of USD 2,437 thousand to be the fair value of the call option and recognized it in the consolidated statement of financial position as at 31 December 2009. As at 30 June 2010 the fair value of the call option is decreased by USD 25 thousand due to revaluation of the Komarova project. Loss on revaluation of the call option is recognized directly in statement of comprehensive income (loss).

The following is summarized financial information, in aggregate, in respect of associates as at for the six months ended 30 June 2010 and 30 June 2009:

| | Henryland Group Ltd. | | Hindale Ltd. | | Total | |
|---|---|---|---|---|---|---|
| | **30 June 2010** | **30 June 2009** | **30 June 2010** | **30 June 2009** | **30 June 2010** | **30 June 2009** |
| *(in thousands of USD)* | | | | | | |
| (Loss) profit for the year | **1 131** | **1 427** | **(79)** | **(1 863)** | **1 052** | **(436)** |
| Share in (loss) profit for period | **429** | **542** | **(15)** | **(931)** | **414** | **(389)** |

## 8 Long-term loan

Long-term loan represents a loan provided by the Group to Commercial Construction LLC (the Borrower) at 2% fixed interest rate. In February 2010 part of the loan in the amount of USD 808 thousand was assigned to Intendancy Ltd provided that Intendancy should pay consideration to be equal to principal amount plus interest accrued. As at 30 June 2010 the total amount of the Long-term loans outstanding is USD 2,501 thousand including accrued interest of USD 98 thousand. The maximum amount of the loan that can be extended to the Borrower is USD 9,192 thousand. However, this does not represent an irrevocable commitment of the Group to extend the loan up to the full amount. Additional disbursement will be subject to the discretion of the Group.

## 9 Inventories

Inventories as at 30 June 2010 and as at 31 December 2009 are as follows:

| *(in thousands of USD)* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|
| Trading property | **12,200** | 12,210 |
| Other inventory | **32** | 31 |
| Construction materials | **1** | 1 |
| **Total** | **12,233** | 12,242 |

As at 30 June 2010 trading property of USD 12,200 thousand represent a net realizable value as defined by the independent appraiser. The revaluation loss for the six months of 2010 totaling of USD 10 thousand was recognized directly in the statement of comprehensive loss.

## 10 Trade and other receivables

Trade and other receivables as at 30 June 2010 and as at 31 December 2009 are as follows:

| *(in thousands of USD)* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|
| Prepayments made | **1,497** | 462 |
| Other receivables | **1,356** | 2,460 |
| Accrued interest | **208** | 88 |
| **Total** | **3,061** | 3,010 |

Other receivables includes a loan granted during 2009 to an unrelated party, Morgan Furniture Ltd, of USD 346 thousand, which is collateralized by industrial real estate and which is due to be repaid by 31 December 2010. This loan was taken over from Rodovid bank as a partial settlement of a deposit held by the Group in this bank as at 31 December 2008. This decision was approved by the Board in a written resolution dated 17 February 2009.

## 11 Cash and cash equivalents

Cash and cash equivalents as at 30 June 2010 and as at 31 December 2009 are as follows:

| *(in thousands of USD)* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|
| Bank balances | **861** | 806 |
| Call deposits | **79,860** | 85,389 |
| **Total** | **80,721** | 86,195 |

# 12 Equity

Movements in share capital and share premium for the year ended 30 June 2010 are as follows:

| *(in thousands of USD, except for share numbers)* *Number of shares unless otherwise stated* | **Ordinary shares** | **Amount** |
|---|---|---|
| **Outstanding as at 31 December 2008, fully paid** | 133,385,716 | 2,668 |
| Issued during 2009 | - | - |
| Own shares acquired and cancelled | (15,669,201) | (314) |
| **Outstanding as at 31 December 2009, fully paid** | 117,716,515 | 2,354 |
| Issued during six months 2010 | - | - |
| Own shares acquired and cancelled during six months 2010 | - | - |
| **Outstanding as at 30 June 2010, fully paid** | **117,716,515** | **2,354** |

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.

# 13 Income tax expense

## (a) Income tax expense

Income taxes for the six months ended 30 June 2010 and for the six months ended 30 June 2009 are as follows:

| *(in thousands of USD)* | **Consolidated 30 June 2010** | Consolidated 30 June 2009 |
|---|---|---|
| Current tax expense | **(50)** | 3 |
| Deferred tax benefit (expense) | **(328)** | (1,288) |
| **Total benefit (expense)** | **(378)** | (1,285) |

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

### (b) Reconciliation of effective tax rate

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

| *(in thousands of USD)* | **30 June 2010** | **%** | 30 June 2009 | % |
|---|---|---|---|---|
| Loss before tax | **(956)** | **100** | (62,039) | 100 |
| Computed expected income tax (benefit) expense at statutory rate | **(237)** | **25** | (15,510) | 25 |
| Effect of lower tax rates | **(282)** | **30** | (2,835) | 5 |
| Non-taxable income (income earned by holding companies) | **1** | **(0)** | (840) | 1 |
| Change in unrecognized temporary differences | **756** | **(65)** | 1,233 | (2) |
| Non-deductible expenses | **140** | **(15)** | 3,399 | (5) |
| **Effective income tax (benefit) expense** | **378** | **25** | (14,553) | 24 |

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

The movement in deferred tax liabilities for the six month ended 30 June 2010 is as follows:

| *(in thousands of USD)* | **1 January 2010 liability** | **Recognized in income** | **30 June 2010 Liability** |
|---|---|---|---|
| Investment property | **(14,832)** | **(328)** | **(15,160)** |
| Tax liabilities | **(14,832)** | **(328)** | **(15,160)** |

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

| *(in thousands of USD)* | **1 January 2009 liability** | **Recognized in income** | **Acquisition of Noviy Region** | **Decrease in share in joint venture and disposal of subsidiary** | **31 December 2009 liability** |
|---|---|---|---|---|---|
| Investment property | (15,929) | (242) | (1,497) | 2,836 | (14,832) |
| Tax liabilities | (15,929) | (242) | (1,497) | 2,836 | (14,832) |

## 14 Trade and other payables

Trade and other payables as at 30 June 2010 and as at 31 December 2009 are as follows:

| *(in thousands of USD)* | **Consolidated 30 June 2010** | Consolidated 31 December 2009 |
|---|---|---|
| Management and performance fees | **2,217** | 2,255 |
| Other payables and accrued expenses | **374** | 282 |
| **Total current liabilities** | **2,591** | 2,537 |

## 15 Management fee

Management fee for the six month ended 30 June 2010 and for six months ended 30 June 2009 are as follows:

| *(in thousands of USD)* | **Consolidated For six month ended 30 June 2010** | Consolidated For six month ended 30 June 2009 |
|---|---|---|
| Management fee | **2,217** | 2,231 |
| **Total** | **2,217** | 2,231 |

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

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

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

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

The total management fee for the six months ended 30 June 2010 is USD 2,217 thousand (for six month 2009: USD 2,231 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 |
|---|---|---|---|---|---|
| **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 date** | **16 May 2008 - 16 May 2012** | **16 May 2012** | **29 November 2012** | **16 May 2012** | |
| **Exercise price** | **2.00USD** | **2.00USD** | **1.30GBP** | **2.00USD** | |
| **Share based compensation (USD thousand) during six months 2010** | **6** | **-** | **-** | **-** | **6** |

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

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

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

There were no forfeited or exercised options during the six months ended 30 June 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:

| *(in USD, except for number of shares and percent)* | Key management personnel | Dragon Capital Partners Ltd Initial share issue | Dragon Capital Partners Ltd Secondary share issue | Zimmerman Adams International Ltd |
|---|---|---|---|---|
| Fair value at grant date | **0.82** | **0.82** | **0.82** | **0.82** |
| Share price | **2.00** | **2.00** | **2.73** | **2.00** |
| Exercise price | **2.00** | **2.00** | **2.73** | **2.00** |
| Expected volatility, percent | **33.80** | **33.80** | **33.80** | **33.80** |
| Option life, years | **1 - 5** | **5** | **5** | **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.

## 17 Administrative expenses

Administrative expenses for the six month ended 30 June 2010 and for six months ended 30 June 2009 are as follows:

| *(in thousands of USD)* | **Consolidated For six months ended 30 June 2010** | Consolidated For six month ended 30 June 2009 |
|---|---|---|
| Professional services | **541** | 149 |
| Other | **269** | 84 |
| Advertising | **124** | 63 |
| Wages and salaries | **123** | 114 |
| Directors’ fees | **63** | 63 |
| Travel expenses | **25** | 6 |
| Bank charges | **16** | 28 |
| Audit fees | **15** | 3 |
| Insurance | **9** | 47 |
| Share based compensation | **6** | 9 |
| **Total administrative expenses** | **1,190** | 566 |

## 18 Net financial income

Net financial income for the six months ended 30 June 2010 and for six months ended 30 June 2009 are as follows:

| *(in thousands of USD)* | **Consolidated For six months ended 30 June 2010** | Consolidated For six months ended 30 June 2009 |
|---|---|---|
| Interest income | **713** | 652 |
| Currency exchange losses | **-** | 113 |
| **Net financial income** | **713** | 765 |

# 19 Contingencies

## (a) Litigation

As at 31 December 2009 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 litigations relating to this project in which Hindale Ltd. is involved. These litigations 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 at 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, 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. The Group's effective ownership in the Avenue Shopping Mall project amounts to USD 3,960 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 2010 outstanding commitments to finance construction of investment properties and other commitments amount to USD 21,511 thousand (as at 31 December 2009: USD 22,586 thousand).

## 20 Earnings per share

### Basic earnings per share

The calculation of basic earnings per share is based upon the loss for the six months ended 30 June 2010 attributable to the ordinary shareholders of USD 1,334 thousand (for six months ended 30 June 2009 loss of USD 7,571 thousand) and a weighted average number of ordinary shares outstanding calculated as follows:

| *(in number of shares weighted on the period outstanding)* | **30 June 2010** | 30 June 2009 |
|---|---|---|
| Shares issued on incorporation on 23 February 2007 | **2** | 2 |
| Sub-division of GBP 1 shares into GBP 0.01 shares on 16 May 2007 | **198** | 198 |
| Shares issued on 1 June 2007 | **104,000,000** | 104,000,000 |
| Shares issued on 29 November 2007 | **36,630,100** | 36,630,100 |
| Shares issued on 24 April 2008 | **1,698,416** | 1,698,416 |
| Own shares buyback in 2008 | **(8,943,000)** | (8,943,000) |
| Own shares buyback in 2009 | **(15,669,201)** | (1,968,028) |
| **Weighted average number of shares for the period** | **117,716,515** | 131,417,688 |

### Diluted earnings per share

The calculation of diluted earnings per share is based on the loss for the six months ended 30 June 2010 attributable to ordinary shareholders of USD 1,334 thousand (for six months ended 30 June 2009 loss of USD 7,571 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows:

| *(in number of shares)* | **30 June 2010** | 30 June 2009 |
|---|---|---|
| Weighted average number of shares for the year ended 30 June 2010 | **117,716,515** | 131,417,688 |
| **Weighted average number of shares for the period (fully diluted)** | **117,716,515** | 131,417,688 |

Because during the reported period 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 basis of due diligence research and the reputation of the counterparty. As at 30 June 2010 the largest exposures relate to prepayments made under the land acquisition contracts totaling USD 124,062 thousand (31 December 2009: USD 121,487 thousand). This latter risk is mitigated by pledge agreements for corporate rights of the pledgor in the entities that own the land to be acquired.

## (c) Interest rate risk

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

## (d) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily UAH and EUR. The exposure to foreign currency risk as at 30 June 2010 and as at 31 December 2009 is as follows based on notional amounts:

| | **30 June 2010** | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| *(in thousands of USD)* | **EUR** | **GBP** | **UAH** | EUR | GBP | UAH |
| **Current assets** | | | | | | |
| Cash and cash equivalent | **43** | **4** | **347** | 86 | 1 | 35 |
| Trade and other receivables | **-** | | **532** | - | - | 408 |
| **Current liabilities** | | | | | | |
| Trade and other payables | **(26)** | **(9)** | **(22)** | (29) | (9) | (8) |
| **Net long (short) position** | **17** | **(5)** | **857** | 57 | (8) | 435 |

The foreign exchange rates of the USD as at 30 June 2010 and as at 31 December 2009 are as follows:

| **Currency** | **2010** | 2009 |
|---|---|---|
| EUR | **1,2198** | 1,4338 |
| GBP | **1,5052** | 1,5861 |
| UAH | **0,1265** | 0,1252 |

As at 30 June 2010 a 10 percent weakening of the US dollar against the UAH would have decreased post-tax profit and equity by USD 94 thousand.

As at 30 June 2010 a 10 percent weakening of the US dollar against the GBP would have increased post-tax profit and equity by USD 1 thousand.

As at 30 June 2010 a 10 percent weakening of the US dollar against the EUR would have decreased post-tax profit and equity by USD 2 thousand.

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

## (e) Fair values

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

# 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 six months ended 30 June 2010 and for six months ended 30 June 2009 is as follows:

| *(in thousands of USD)* | **For six months ended 30 June 2010** | For six months ended 30 June 2009 |
|---|---|---|
| Directors' fees | **63** | 63 |
| Share based payment expense (options granted) | **6** | 9 |
| Reimbursement of travel expenses | **2** | - |
| **Total management remuneration** | **71** | 72 |

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

The Directors owned shares in the Parent Company as at 30 June 2010 and as at 31 December 2009 are as follows:

| | **30 June 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Number of shares** | **Ownership, %** | Number of shares | Ownership, % |
| Aloysius Johannes Van der Heijden | **200,000** | **0.17** | 200,000 | 0.17 |
| Tomas Fiala | **8,529,916** | **7,25** | 8,529,916 | 7,25 |
| | **8,729,916** | **7.42** | 8,729,916 | 7,42 |

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

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

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 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 ordinary shares at a price of USD 2.60 per ordinary share to settle 70 % of the Manager's performance fee for 2007 in the amount of USD 4,432 thousand.

## (b) Transactions with other related parties

Expenses incurred and outstanding balances of transactions at 30 June 2010 and 31 December 2009 are as follows:

| | **30 June 2010** | | 2009 | |
|---|---|---|---|---|
| *(in thousands of USD)* | **Transactions** | **Balance outstanding** | Transactions | Balance outstanding |
| Disposal of subsidiary | **-** | **923** | 1,620 | 1,620 |
| Management fee for project management to be paid to Dragon Development | **50** | **50** | 210 | 36 |
| Loan issued to Tradecom Inko | **-** | **343** | 420 | 420 |
| Payment to for Land Plot-1 in Rivne | **1,000** | **1,000** | | |
| Expenses to be reimbursed to Manager | **30** | **27** | - | - |
| | **1,080** | **2,343** | 2,250 | 2,076 |

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