2 June 2014

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

Results for the year ended 31 December 2013

Dragon-Ukrainian Properties & Development plc, a leading investor in the real estate sector in Ukraine, is pleased to announce its final results for the year ended 31 December 2013.

Highlights

Operational Highlights

- Fully invested; focused on existing projects rather than new investments
- Invested in 10 projects; 6 of these are cash generating
- Attracted a local partner for Obolon for development financing
- Commenced pre sales campaign at Obolon in October 2013; sales to date met expectations in terms of volume and prices
- Commenced pre-sales at Sadok Vyshnevy project
- Solid progress on sales of residential properties in Green Hills and Riviera Villas, particularly for Green Hills
- Henryland sold all of its property assets to a local private investor in Q3 2013 for USD 23.7 million; divestment came at a 23.3% discount to the Company's 30 June 2013 carrying value for its investment in Henryland
- First tranche of Henryland dividend received (USD 5.3 million); remaining USD 3.7 million is expected in Q4 2014, upon completion of the sale of the Henryland properties
- Arricano completed its IPO on the AIM market in September 2013 raising USD 24 million in cash and acquiring four pipeline projects in an exchange for new shares worth another USD 66 million
- On the Landbank project, conducting basic land development works on a 3 ha land plot in order to prepare such land for sale to private individuals

Financial Highlights

- Total NAV of USD 161.7 million at 31 December 2013 (down 10.3% compared to 30 June 2013 of USD 180.3 million)
- NAV per share of USD 1.48 at 31 December 2013 (down 10.3% compared to 30 June 2013 NAV per share of USD 1.65)
- Cash balance of USD 24.8 million (31.2% up compared to 30 June 2013: USD 18.9 million)
- Net loss before tax USD 38.9 million mostly driven by additional impairment on prepayment for land (USD 13.3 million), fair value loss on investment properties and property under construction (USD 7.0 million) and write-down of inventories (USD 14.0 million) (31 December 2012 loss before tax USD 16.3 million)

Rory Macnamara, non-executive Chairman of the Company commented:

"The principal objective of the Company for the coming years remains the realisation and monetisation of the value of the assets in our portfolio for the benefit of the shareholders. We are confident that strategic and operational realignment of the Company and its Manager, as described above, will contribute positively to achieving our goals. I believe that DUPD is positioned to weather the current political and economic storms and to generate cash flow from its residential portfolio. At the same time, we are encouraged with the political developments in Ukraine over the past few months and await further political stabilisation, which hopefully will be followed by the first signs of economic recovery.

Our projects are setting new standards of quality in the residential market, a fact which is well appreciated by our clients and by industry professionals. On the land bank investment, we will be seeking to sell the first of the re-zoned land plots in Zazymya to individual buyers. We are expecting Arricano Real Estate to open one more shopping mall in Kyiv in 2014 and we will closely follow performance of their stock on the AIM market. With this in mind we will continue to focus on our core strategy of value maximisation and cash generation from all assets in our portfolio."

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About Ukraine

The Ukrainian Economy

Ukraine has entered one of the most turbulent periods in its history with a significant impact on the country's economy. In 2013, GDP growth declined to 0.0% y/y from 0.2% y/y in 2012. Private household consumption was the only component with a positive contribution to GDP; it is, however, losing steam. Exports have declined for two consecutive years as demand for steel, Ukraine's key export commodity, remained depressed. Unfavourable external conditions resulted in the current account shortfall increasing to 8.9% in 2013 from 8.4% of GDP in 2012. Recent political turbulence and unprecedented tensions with Russia, which continue to run high following the annexation of Crimea in March 2014, have resulted in yet larger uncertainty, further curbing both local and foreign investment.

On a positive note, the recently agreed USD 17 billion 2-year stand-by loan programme with the International Monetary Fund ("IMF") provides long-awaited support for government and central bank's financing needs and also paves a way to economic reforms, which should result in an improved investment climate and positive structural changes in the Ukrainian economy in the mid term, although a tighter fiscal policy may squeeze near-term growth. The IMF loan will also unlock aid from other international lenders, with the total Western support package for Ukraine estimated at USD 27 billion, covering a substantial share of government debt service and gas import purchases for the coming two years and stabilising the banking sector.

Despite the prospective support from the IMF and other lenders, numerous challenges remain ahead. The current instability is lowering consumer confidence and spending, while CPI is likely to soar to 14–16% in 2014 from 0.5% in 2013 following a sharp Hryvnya devaluation and surging gas prices for both household and industrial users.

Albeit with weak near-term growth prospects, the country's long-term economic potential is one of the strongest in the region. The consensus forecast sees Ukraine's long-term GDP growth at 4.3%, trailing only Turkey and Kazakhstan. Adequate progress on structural reforms and cessation of conflict with Russia are key prerequisites for the first signs of economic recovery.

The Real Estate Market

The Ukrainian real estate market is seeing low investment activity, flat rents and high yields in all sectors. The market's fundamentals have remained unchanged with Kyiv still lagging behind Central and Eastern European peers in terms of supply and maintaining significant structural growth potential.

Despite the decline in total construction output in 2013, due to the drop in non-residential segments, residential construction continued its steady recovery (+7% y/y). Residential space deliveries increased by 20% in 2013 and were the highest since 2008. Residential stock per capita in Ukraine reached 24 m^2, still far below the EU average of 35 m^2 per capita, suggesting strong demand potential, although currently demand is still depressed by low household confidence and the subdued mortgage market. In 2013, apartment sales in Kyiv decreased by 8% y/y due to the weak secondary market (–16% y/y), while the primary sales inched 3% up on the back of attractive acquisition structuring offers from developers.

Commercial property sectors remain "tenants' markets" with landlords forced to provide rental discounts in an attempt to retain existing lessees and struggling to attract new ones amidst growing vacancies. Retail property is in better shape compared to the office and industrial sectors, enjoying close to full occupancy levels, due to steady growth of retail trade turnover throughout the past four years. The retail property sector in Kyiv also remains the most lucrative segment of the local market in the longer term, being greatly under-saturated, with per capita shopping centre space at half of that in Warsaw.

Overall, the real estate market in Ukraine is in a state of great uncertainty and is looking forward to macroeconomic stability before seeing new investments and strengthening demand across all property sectors.

About DUPD

DUPD remains the largest AIM-listed real estate investor operating in Ukraine. The Company is present in two top-performing market segments in Ukraine – residential and retail properties – and is well positioned to benefit from further improvement in market sentiment.

2013 was one of the most challenging years for Ukraine, with economic turbulence and political unrest. The annexation of Crimea and the risk of Russian military intervention makes the current situation highly uncertain and the economy extremely fragile. The recently-agreed deal with the IMF brightened the outlook, shored up the country's confidence and may lead to a turnaround in investment, but the conditions of this financial support will take a heavy toll on Ukraine's near-term growth.

Management of DUPD

DUPD utilises the property investment and development expertise of DCM Limited (DCM or "the Manager") and, where a joint venture arrangement is appropriate, other experienced international and local partners. DCM provides advisory, investment management and monitoring services to DUPD in respect of project development and divestment. DCM is the asset management arm of Dragon Capital, Ukraine's leading investment bank, offering a full range of services to institutional, corporate and private clients. Established in 2000, Dragon Capital is an independent partnership controlled by management, with a minority stake held by Goldman Sachs. The company has completed more than 100 deals, including IPOs, private placements, M&A transactions and debt financings, since 2005, raising over USD 3.4 billion.

All investment decisions are considered by the Board of Directors, comprising directors with extensive experience in property investment, development and management as well as general investment, company law and administration. At all times, the majority of the seats on the Board are occupied by independent directors.

Our Investment Strategy

Following a review of the future strategy of the Company by the Board, in conjunction with the Manager, the Board put forward proposals to adopt a new investing policy, which was approved by shareholders on 17 February 2014. Reflecting its fully invested status, the Company plans to make no new property investments, but to monetise its existing property investments as quickly and effectively as the Ukrainian property market will allow and return the proceeds to shareholders in a tax-efficient manner.

In the day-to-day management of the projects, whether maintenance of existing properties, construction supervision or attracting new financing, the Manager is utilising its own proprietary network of local and international contacts.

Chairman's Statement

2013 was a year of challenges and great uncertainty for the Ukrainian economy and for the real estate market in particular. The country's economy had zero growth, while political instability, increasing risk profile and a worsening investment environment have not surprisingly been of concern for local and foreign investors, especially over the second half of the year. At the same time, we are encouraged with the political developments in Ukraine over the past few months and await further political stabilisation, which hopefully will be followed by some first signs of economic recovery – possibly in 2014.

In such an environment we remained focused on thoroughly planning, managing and controlling our real estate investments in order to increase their potential for success and achieve sustainable growth of shareholder value in the short and medium term.

Our clear objective is to provide shareholders of Dragon-Ukrainian Properties and Development plc with an opportunity to benefit from their investment in the Company through efficient distribution of net proceeds of property realisations, having regard to the Company's working capital requirements and existing property project requirements. While the original investing policy in place at the time of our IPO in 2007 assumed development and re-development of new projects, no new investments have been made since 2010. In early 2014, we took an additional step of formally adopting a new investing policy. The new investing policy reflects the Company's fully invested status and provides that the Company make no new property investments and monetise its existing property investments as quickly and effectively as the Ukrainian property market will allow and return the proceeds to shareholders. Following the adoption of the new investing policy, the Board and the Manager have been in discussion with their legal and tax advisers on the most effective structure for returning cash to shareholders, and will provide an update to shareholders on this in due course, including if required any shareholder approvals. The Board is mindful of shareholders desire for distributions and will update shareholders as soon as the Board has approved any decision on distributions.

While realising properties on reasonable terms remains challenging at the present time, we can report the successful divestment of the properties held by Henryland as well as good progress on sales in our residential projects.

The sale of the assets of Henryland, agreed with a strategic buyer in late 2013, remains subject to completion, which is expected by the end of 2014. This is expected to generate a total of USD 9 million of dividends for DUPD before the end of 2014. DUPD's share of the proceeds of disposal effectively reflects a 23.3% discount to the Company's 30 June 2013 carrying value of the investment in Henryland. Out of this amount USD 5.3 million was received in 2013 and contributed positively to our cash balance.

Our residential sales in the high-end cottage community Riviera Villas stood at a moderate level (one sale completed in 2013), while those in Green Hills – our business-class community – increased from 29 to 37 units. We are also happy to report a successful launch of sales in two more projects – Obolon Residences and Sadok Vyshnevy, in September–October 2013. By the end of 2013 we were able to pre-sell 41 apartments and 5 commercial premises in Obolon for USD 8.5 million and sell one apartment for USD 155.9k in Sadok Vyshnevy. Consequently, the cumulative sales and pre-sales in our residential portfolio to date reached USD 21.1 million. The residential part of our portfolio is thus continuing to bolster our cash-generating capacity with a positive outlook going forward.

Another substantial part of our portfolio – Arricano, a retail developer – successfully completed an IPO on the AIM market of the LSE (ticker ARO:LN), raising an additional USD 24 million for development of its portfolio. We have also terminated all legal proceedings with Arricano's principal shareholder, Retail Real Estate S.A., via a comprehensive settlement of claims, after receipt of an amount in settlement of the claims. Certain legal disputes with Stockman Interhold SA (Stockman) a third-party investor in the Sky Mall property of Arricano remain in process, but the company keeps working towards a resolution in the near future.

Results

The Company's Net Asset Value ("NAV") for the year decreased by 18% y/y, or USD 36 million, to USD 161.7 million (31 December 2012: USD 198.04 million) with a net loss of USD 36.3 million (2012: USD 15.3 million). For the second consecutive year, the main contributor to the NAV decline and the net loss was the reduced valuation of our land bank investment (impairment of USD 13.3 million), reflecting a more conservative scenario applied by the Company's independent valuer, altogether with a write-down of inventories at Obolon of USD 10.5 million and at Sadok Vyshnevy of USD 3.5 million, due to more conservative assumptions employed by the new valuer.

Cash balances increased by USD 3 million, from USD 21.7 million to USD 24.7 million, and there continues to be no debt on any of the projects. Principal inflows included USD 6.4 million dividends received from Henryland and advances from pre sales increased by USD 6.5 million to USD 7.5 million. Principal cash outflows included management fees of USD 2.5 million, USD 2.1 million further developments costs on Green Hills and Riviera Villas, and a further USD 1 million for the land bank project. The Company continues to closely monitor its cash balances and monies spent on each of its projects.

The Company appointed DTZ Kiev BV as the independent appraiser for the valuation of the Company property investments, replacing CB Richard Ellis LLC. The Board notes that Mr van der Heijden is chairman of DTZ Kiev BV but the Board does not believe that this has impacted DTZ Kiev BV's independent appraisal of the valuation of the Company's property investments.

Board and Management

I took over the Chairman's role on 1 August 2013. I want to thank Mr van der Heijden, who had been our Non-Executive Chairman since the Company's inception, for his dedication to DUPD and his in-depth involvement in all major projects and decisions. We are extremely pleased that he has agreed to remain a Board member. We also want to thank Nikolay Artemenko, who resigned from the Board as of 1 August 2013, for his valuable contribution during his directorship with the Company.

In February 2014, the Company entered into a new management agreement with DCM Limited (an entity which replaced Dragon Capital Partners Limited following an internal reorganisation in the Dragon Capital Group). This was entered into at the same time as the adoption of a new investing policy to that of an orderly realisation of the Company's properties over the medium term with a view to maximising returns for shareholders and to make no investment in new properties that are not currently part of the Company's existing property portfolio.

The Dragon Capital Group has confirmed that other than the change in the corporate vehicle of the Manager, no other changes have occurred – specifically, no changes in the financial covenant, management and other resources that have been deployed by Dragon Capital Partners Limited. Under the new management agreement, the management fee changed from being based on 1.5 per cent of Gross Asset Value to a sequence of fixed amounts, decreasing on an annual basis going forward. The change was also applied to 2013.

The performance fee under the Third Management Agreement has changed from one which is calculated in two parts, being based on increases in NAV and share price, to a fee entirely based on distributions to shareholders.

The Directors consider that the proposed changes will incentivise the Manager to dispose promptly of the Company's properties and achieve the best possible sales value for each property and therefore maximise the cash returns to shareholders.

Awards and Community

It was pleasing that the hard work of our team was recognised by an independent third party, both in Europe and in Ukraine, as our gated communities Riviera Villas and Green Hills were named best projects in 2013 in their respective categories by European Property Awards and iBuild Ukraine.

Outlook

The principal objective of the Company for the coming years remains the realisation and monetisation of the value of the assets in our portfolio for the benefit of the shareholders. We are confident that strategic and operational realignment of the Company and its Manager, as described above, will contribute positively to achieving our goals. I believe that DUPD is positioned to weather the current political and economic storms and to generate cash flow from its residential portfolio. At the same time, we are encouraged with the political developments in Ukraine over the past few months and await further political stabilisation, which hopefully will be followed by the first signs of economic recovery. Our projects are setting new standards of quality in the residential market, a fact which is well appreciated by our clients and by industry professionals. On the land bank investment, we will be seeking to sell the first of the re-zoned land plots in Zazymya to individual buyers. We are expecting Arricano Real Estate to open one more shopping mall in Kyiv in 2014 and we will closely follow performance of their stock on the AIM market. With this in mind we will continue to focus on our core strategy of value maximisation and cash generation from all assets in our portfolio.

Rory Macnamara
Non-Executive Chairman
Date 2 June 2014

Manager’s Report

Operation Overview

In February 2014, DUPD’s shareholders approved a new investing policy focused on developing and monetising its existing property investments and returning proceeds to shareholders, as well as not making any new property investments. Given the Company has previously confirmed its fully invested status, in practice the Board and the Manager have not considered any new investments since the Company’s investment in Arricano in 2010, and have remained focused on developing its existing property portfolio.

2013 was our best performing year in terms of residential sales, as we opened sales in the Obolon and Sadok projects. Our four residential projects generated USD 11.0 million in contracted sales (52% of the Company’s total residential sales) and USD 10.1 million in cash proceeds, which has contributed to DUPD’s increased cash balance. The majority of DUPD’s residential sales are in the nature of pre sales, with certain cash received upfront and delivery of certain conditions such as completion of an apartment, and/or title transfer, before the sales can be recognised for accounting purposes. Despite the challenging market environment for individual home sales, Green Hills booked USD 1.9 million from nine new sales bringing the total number of sold land plots to 37 out of the initial stock of 178. Riviera Villas sold one house, but had a record year in terms of cash receipts, having collected USD 2.6 million from sales contracts signed in the previous periods. We are focused on advancing the development of these two high-class cottage communities by expanding social and engineering infrastructure and creating new show homes to support future sales.

The bulk of the 2013 residential contracted sales (USD 8.5 million or 78%) were accounted for by apartment pre-sales as DUPD tapped into this much stronger segment of the Ukrainian residential market with Obolon Residences. The first pre-sales became possible due to a successful breakthrough in our prolonged search for development financing, as we managed to attract a local partner who agreed to share some of the development costs in exchange for USD 5 million worth of premises in the building. We started the construction of the first tower in Q2 2013, and in October 2013 we opened the pre-sales campaign. End-of-2013 pre-sales (as well as the Q1 2014 figures) met our expectations in terms of volume and prices, even accounting for the sharp decrease in customers’ activity since the start of the Maidan protests at the end of November and the sharp devaluation of the Hryvnya in February of this year. Hence, we are actively proceeding with the construction of Phase 1 and we are also considering the start of Phase 2 in H2 2014 if the situation in Ukraine stabilises.

2013 was also the year of the first sales in our Sadok Vyshnevy project. Out of four pre-sales, only one was closed in 2013, as the other three were suspended due to political events in the country and eventually closed in Q1 2014. The sales prices in this project are in the range of 600–700 USD/m^2, slightly exceeding the fair value of the asset.

As competition in the sector of single-family homes weakens, due to the absence of new developments, we are working on Green Hills, Riviera Villas and Sadok Vyshnevy to put them in a good position to benefit from the pent-up demand for individual homes that we believe will occur after the resolution of the economic and political crisis in the country.

We are equally satisfied with the performance of the retail part of our portfolio in 2013, particularly that of our two largest investments, Arricano and Henryland.

Henryland, where DUPD holds 38%, sold all of its property assets (three retail boxes and three properly zoned land plots) to a local private investor in Q3 2013 for USD 23.7 million, entitling DUPD to a dividend of around USD 9 million. The Company received the first tranche of the dividend of USD 5.3 million – bringing its total dividends received from Henryland to USD 7.9 million – and the remaining USD 3.7 million is expected in Q4 2014, upon completion of the sale of the Henryland properties. The divestment came at a 23.3% discount to the Company’s 30 June 2013 carrying value for its investment in Henryland and was one of only a few investment sales in the Ukrainian property market in 2013.

Last year, DUPD reached a comprehensive settlement with its majority partner in Arricano, following which the company successfully completed an IPO on AIM in September 2013, raising USD 24 million in cash and acquiring four pipeline projects in an exchange for new shares worth another USD 66 million. Consequently, the total portfolio of Arricano grew to nine shopping centre projects, and the company started to be governed by an enlarged board with DUPD representation and an independent Chairman. In February 2014, the second phase of Yug, the shopping centre in Simferopol, was opened, and in Q3 2014 Arricano is planning to open its third shopping mall in Kyiv, Prospect (one of the newly acquired pipeline projects, with total lettable space of 30,400 m^2). On a negative note – the dispute around the ownership of Sky Mall has not been resolved and Arricano still has no control of the asset, while the recent developments in the Crimea have led the company to search for a new safe and tax-efficient ownership structure for Yug.

On the land bank project, we are conducting basic land development works on a 3 ha land plot in order to prepare such land for sale to private individuals by building roads, fencing and providing for electricity, and at the same time we have achieved significant progress in seeking re-zoning of the other location where a new master plan of the neighbouring village, which included DUPD’s land within the village’s borders, was approved. Large holdings of land, particularly that which requires rezoning, are still the most illiquid type of real estate assets in Ukraine as the market in out-of-town land remains largely dormant. The current intention is to manage the sales and rezoning process in a cost efficient manner, redeploying sales proceeds into other tranches of the land bank project.

We have successfully obtained rezoning to residential usage on 19.9 hectares to date, out of 502 hectares. We continue to work diligently with our partner in the land bank project to seek the necessary rezoning to residential usage of the remaining 482.1 hectares.

Market Overview

Ukraine's commercial and residential property markets continued to show mixed dynamics in 2013. New deliveries on the Kyiv commercial property market (office, retail and industrial) hit 385,000 m^2 (+11% y/y) while the number of residential property deals in the Ukrainian capital decreased by 8% y/y.

In 2013, construction in Ukraine dropped by 14% y/y to $7.1bn in value terms amid overall economic weakness. The decline was driven by the segments of non-residential (–16% y/y; 30% of total volume) and infrastructure construction (–19%; 53% share). Residential construction (17% share) was the only segment to report positive growth of 7% y/y.

The Commercial Property Market

The commercial property market was driven by the retail segment in 2013, with Kyiv's total shopping space rising 15% (+125,000 m^2 of new premises) to 916,000 m^2, according to Colliers International. Despite this sizable growth, the vacancy rate increased only slightly (+0.9pp to 3.9% at the end of 2013) and average rental rates declined only 5% y/y (to $93/$m^2$/month for a mid-size unit). The segment continued to benefit from increasing retail trade turnover (+10% y/y in real terms in 2013 after +16% in 2012 and +14% in 2011). The Kyiv office market saw 130,000 m2 of new supply delivered last year (+8% y/y), bringing its end-2013 stock to 1,540,000 m2. Office rental rates remained largely unchanged while vacancy rates slightly lowered (-1.7pp y/y to 15.1% on average). The industrial property market also demonstrated recovery with some 130,000 m^2 of new deliveries (+10% y/y; mainly built-to-suit projects) and end-of-2013 quality stock of an estimated 1,490,000 m^2. With low supply last year, vacancy rates decreased from 10% to 5% while rental rates remained little changed. Yet the number of investment deals registered on the commercial property market overall in 2013 was the lowest since 2009.

Residential

In 2013, residential construction in Ukraine increased by 7% y/y while new housing supply (total space commissioned during the year) increased 20% y/y to 8.2 million m^2, the highest level since 2008, bringing total residential floor space to an estimated 1,105 million m^2 as at the end of 2013, or 24.3 m^2 per capita. Despite growth in new supply, activity on the residential market was markedly lower last year, especially in H2 2013, due to increased economic and political risks. In Kyiv, the total number of apartment sales decreased by 8% y/y in 2013, to 30,621, including 16,154 secondary and 14,467 primary deals. The decline was mainly driven by the secondary market (–16% y/y), as primary market deals inched up (+3%). Total sales last year still accounted for only 69% of the 2007 high, reflecting low household income and prohibitively high mortgage rates. Apartment prices on Kyiv's secondary market were unchanged, averaging $1,900/$m^2$ at the end of 2013 (flat in 2013, and 47% below the mid-2008 peak value). Prices on the primary market also remained flat last year, averaging $1,700/$m^2$ at the year-end (–47% and –35% from mid-2008 peaks on the secondary and primary markets, respectively).

Land

In line with our expectations, 2013 saw no turnaround on the domestic land market (particularly the sector of out-of-town land plots for individual construction) due to still limited property market activity, weak mortgage lending and lack of progress towards land market liberalisation. The land market remained mainly stable in 2013, with prices for land plots for individual construction around Kyiv largely unchanged.

Eugene Baranov
Managing Director
DCM Limited
Date 2 June 2014

Volodymyr Tymochko
Managing Director
DCM Limited
Date 2 June 2014

Project Overview

1. Land bank

- Land is registered in legal entities
- First part of land bank (19.9 ha) re-zoned; further re-zoning is in process for remaining landholding
- The Company is focused on gradually selling the land as it is re-zoned, as suitable for construction of residential and commercial facilities, when the land market recovers

Details

Location:	Kyiv suburbs
Land title:	Freehold
Land area:	502.9 ha
DUPD share:	85%
Fair value of DUPD share:	USD 41.9 million

2. Obolon Residences

- Landmark residential complex with office and retail premises
- Central location in a prestigious Kyiv district
- Local equity co-investor attracted in Q2 2013
- Construction of Phase 1 under way
- Official sales campaign started in October 2013; 41 apartments sold in 2013

Details

Location:	Kyiv
Land title:	Leasehold
Land area:	1.07 ha
Sales area (excluding parking):	38,133 m^2 (including 378 apartments and 3,627 m^2 of commercial space)
DUPD share:	100%
Fair value of DUPD share:	USD 29.4 million

3. **Arricano Real Estate plc**

The Arricano portfolio of nine international quality shopping malls, of which five are fully operational, is the largest in the emerging Ukrainian market of professional retail space.

- In September 2013, the Company floated on AIM (ARO LN)
- DUPD's shareholding was diluted to 12.51%
- Portfolio of nine shopping centres of which five are fully operational
- Second phase of South Gallery (Simferopol) opened in February 2014, hosting the first Auchan store in Crimea
- Prospect (Kyiv) is planned to open in September 2014

Summary

DUPD share:	12.51%
Fair value of DUPD share at 31/12/2013:	USD 33.0 million
Directors:	One board representative

1 Sky Mall (Kyiv)

Gross leasable area (operating):	68,090 m^2
Gross leasable area (to be developed):	46,500 m^2
Key tenants:	Auchan, Comfy, Inditex, New Look, Top Shop, Marks & Spencer, Bonjour, New Yorker, Cronverk

2 Rayon (Kyiv)

Gross leasable area (operating):	24,100 m^2
Key tenants:	Silpo, Comfy, Reserved, Sportmaster, Brocard

3 Sun Gallery (Kryvyi Rig)

Gross leasable area (operating):	35,500 m^2
Key tenants:	Auchan, Comfy, Intertop, Brocard

4 South Gallery (Simferopol)

Gross leasable area (operating):	13,100 m^2
Gross leasable area (under construction):	19,700 m^2 (operating since February 2014)
Key tenants:	Furshet, Comfy, Intertop, Brocard

5 City Mall (Zaporizhzhya)

Gross leasable area (operating):	21,400 m^2
Key tenants:	Auchan, Comfy, Collins, Brocard, Columbia, Women’s Secret, Levis

6 Prospect (Kyiv)

Gross leasable area (under construction):	30,400 m^2 (excluding Auchan)
Key tenants:	Comfy, Sportmaster, L'Etoile, S'Oliver, In City

7 Lukyanivka (Kyiv)

Gross leasable area (under construction):	47,000 m^2

8 Petrivka (Kyiv)

Gross leasable area (to be developed):	31,450 m^2

9 Razumovska (Odesa)

Gross leasable area (to be developed):	38,000 m^2

4. Riviera Villas

Riviera Villas is differentiated from other up-market residential communities around Kyiv by its unique architectural style and its extensive and luxurious social infrastructure.

- Elite cottage community near Kyiv
- Unique luxurious social and leisure infrastructure
- Won a prestigious award from European Property Awards 2013 in London, in the category of Development Multiple Units for Ukraine
- Utilities are on the site and waterfront infrastructure is completed
- 18 land plots sold; first street out of four completed; stock of seven homes available for sale

Details

Location:	Kyiv suburbs
Land title:	Freehold
Land area:	9.65 ha
DUPD share:	59.6%
Fair value of DUPD share:	USD 12.5 million

5. Green Hills

Located on a picturesque hill bordering a forest area with a river and lakes nearby, making it ideal for a gated community.

- Close proximity to Kyiv (10 km) and convenient transport access
- The first North-American-style cottage community developed in Ukraine
- All key infrastructure is in place
- 41 land plots sold, 23 families living in

Details

Location:	Kyiv suburbs
Land title:	Freehold
Land area:	13.96 ha
DUPD share:	100%
Fair value of DUPD share at 31/12/2013:	USD 17.8 million

6. Henryland

- In 2013, Henryland sold all its assets for c. USD 23.7 million and received an initial instalment of c. USD 14.1 million
- In December 2013, Henryland paid USD 13.8 million in dividends, USD 5.3 million (38%) of which were received by DUPD
- The remaining part of DUPD's dividends (USD 3.7 million) is expected to be received in Q4 2014 upon completion of the sale of the assets.

Details

Location:	1. Kremenchuk – operational
	2. Lutsk – operational
	3. Vinnytsia – undeveloped
	4. Mykolaiv – undeveloped
	5. Odesa – operational
	6. Bila Tserkva – undeveloped
Land title:	Freehold/leasehold
Land area:	23.5 ha in aggregate
Gross leasable area (operating):	50,665 m^2
DUPD share:	38%
Fair value of DUPD share at 31/12/2013:	USD 2.5 million

7. Sadok Vyshnevy

- 38 apartments in a constructed town-house community in a Kyiv suburb
- Individual property acts received for each of the properties
- All homes commissioned
- One apartment pre-sold in 2013

Details

Location:	Kyiv suburbs
Land title:	Freehold
Land area:	1.57 ha
DUPD share:	100%
Fair value of DUPD share at 31/12/2013:	USD 5.1 million

8. Avenue Shopping Centre

- Shopping centre development project
- Design documentation developed
- Land lease extended to December 2018
- Construction permit pending

Details

Location:	Kyiv
Land title:	Leasehold
Land area:	1.2 ha
GLA:	23,831 m^2
DUPD share:	18.8%
Fair value of DUPD share at 31/12/2013:	USD 0.5 million

9. Glangate

- Two land plots for shopping centre development in Kremenchuk and Rivne
- Kremenchuk – construction permit received
- Rivne – land plot ready for design development

Details

Location:	Kremenchuk and Rivne
Land title:	Kremenchuk – leasehold; Rivne – freehold
Land area:	9.3 ha
GLA:	49,130 m^2
DUPD share:	100%
Fair value at 31/12/2013:	USD 4.1 million

Investing Policy

Dragon – Ukrainian Properties & Development plc ("DUPD" or "the Company") is an "investing company" for the purposes of the AIM Rules for Companies. The AIM Rules for Companies require an investing company to have in place an investing policy which is "sufficiently precise and detailed so that it is clear, specific and definitive". The AIM Rules for Companies provide guidance in relation to what this investing policy is expected to include as a minimum.

On 17 February 2014, the Company's shareholders approved a new investing policy, which is set out below.

Investing strategy – asset allocation – geographic focus and sector focus

The Board will seek to realise the Company's properties in an orderly manner, such realisations to be effected at such times, on such terms and in such manner as the Board (in its absolute discretion) may determine.

Assets or companies in which the Company can invest

The Company will not make any investments in new properties.

However, this will not preclude the Board (in its absolute discretion) from making any investment in existing properties in the following circumstances:

- where the Board, as advised by the Manager, believes such investment is to protect or enhance the value and saleability of such property;
- where the Company is contractually committed to make such investment;
- in respect of properties currently under construction, where the Company continues to pursue, where necessary, any licences and/or approvals which are required for a particular property to continue its development;
- undertaking investment in additional phases of such properties (other than the existing phase currently being developed in respect of such property) where the Board, as advised by the Manager, believes such investment in additional phases is to protect or enhance the value and saleability of such property;
- authorising the expenditure of such capital as is necessary to: (i) acquire any joint venture party's interests in any of the Company's existing investments; or (ii) carry out any construction necessary to maximise value and saleability of any existing property; and
- entering into any contract or other arrangement with any third party to realise all or any part of its existing properties.

In addition, the Company will only commence construction on any of its existing properties that have yet to commence construction to protect or enhance the value and saleability of such property. In respect of such properties, the Company will also continue to pursue, where necessary, any licences and/or approvals which are required for a particular property.

These above restrictions will not preclude the Company making investments in short-dated cash or near cash equivalent securities, which form part of its cash management practices.

Strategy by which the investing policy will be achieved

The Board and the Manager will investigate a number of approaches to realisation of its properties, which will include, but not be limited to, sales of individual assets or groups of assets or a sale of the entire portfolio (or a combination of such methodologies), or an in-specie distribution of such property. The Board will only consider in-specie distributions to shareholders when other realisation alternatives have been fully explored and the relevant property investment is quoted on a stock exchange.

The Board and the Manager may decide to appoint independent advisers to assist in the execution of the New Investing Policy, including, but not limited to, property valuers and property agents.

Whether investments will be active or passive investments

The Manager assumes a proactive approach to every property project in the Company's property portfolio.

Holding period for investments

The New Investing Policy includes an orderly realisation of the Company's properties over the medium term with a view to maximising returns for shareholders. Accordingly, the Board will seek to realise the Company's properties and exercise all legal rights of the Company in such manner and on such timescale as the Directors see fit, with a view to ensuring that returns to shareholders are maximised.

Spread of investments and maximum exposure limits

The Company does not have a prescribed policy in relation to the spread of investments or maximum exposure limits.

The realisation of the Company's properties may, over time, result in the Company having a reduction in the diversification of investments. However, the realisation of the Company's properties over time will also result in the reduction of the Company's overall investment in real estate assets.

Policy in relation to gearing and cross holdings

The Board (in its absolute discretion) may make prudent use of leverage to make investments or expenditure consistent with its investing policy and to satisfy working capital requirements. Borrowings may be undertaken by the Company itself or by any of its subsidiaries or project companies.

Given that the New Investing Policy is an orderly realisation of the Company's properties over the medium term, it is not expected that the Company will secure additional debt financing other than where the Company believes it is required to protect or enhance the value and saleability of such property.

Investing restrictions

Other than the requirement for the Manager to manage any potential conflicts of interest, and the requirement to invest in accordance with its New Investing Policy, there are no other investing restrictions.

Nature of returns that the Company will seek to deliver to shareholders

Under the New Investing Policy, the Board will seek to return any surplus funds to shareholders when appropriate. The net proceeds of all property realisations will be returned to shareholders, at the Board's discretion, having regard to:

- the requirement to invest further funds in the Company's existing property projects only to protect or enhance the value and saleability of such property, and/or where the Company is contractually committed to make such investment;
- the Company's working capital requirements and running costs (including the fees payable under the Third Management Agreement);
- the cost and tax-efficiency of individual transactions and/or distributions; and

- the 2006 Act.

It is expected that surplus capital will be returned to shareholders over time in a manner which may involve dividends, share buy-backs, voluntary tender offers, dividends and/or capital reductions. The decision to make any such returns, the method through which such returns are effected, and the quantum and timing of any such returns will be at the sole discretion of the Board. The Board will only consider in-specie distributions to shareholders when other realisation alternatives have been fully explored and the relevant property investment is quoted on a stock exchange.

<u>Other matters</u>

Cash management

Pending future returns of value to shareholders, all of the Company's funds (whether in the form of cash or otherwise) will be kept under the control of the Board or as it may direct.

Currency hedging

The Company will hedge currency and interest rate risk as and to the extent that the Board (in its absolute discretion) considers appropriate.

Management of liabilities

The Company will endeavour, at the direction of the Board (in its absolute discretion), to manage all actual or potential material liabilities, risks or exposures of the Company (including, without limitation, any existing contractual commitments, disputes (potential or actual) and litigation (threatened or actual)) in a manner consistent with the orderly realisation of the Company's properties.

Conflict policy

The Dragon Capital Group pursues a number of real estate development projects in Ukraine. Under the terms of the Third Management Agreement the Manager has no ability to commit the Company or any of its subsidiaries to make any acquisition or disposal. In the event that any Relevant Party has the opportunity to acquire Conflict Property then the Manager shall cause the Relevant Party to provide, inter alia, all material details of the Conflict Property to the Company, in order for the Company to decide whether or not to notify the Manager that it should pursue the opportunity to acquire the Conflict Property (within the scope of the New Investing Policy). If the Company so notifies the Manager of its intention to pursue the opportunity to acquire a Conflict Property, the Manager shall procure that no affiliate of the Manager shall acquire any interest in the Conflict Property in question without the prior consent of the Company.

(in thousands of USD)	Note	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Assets					
Non-current assets					
Investment properties	*5*	**34,536**	**-**	40,497	2
Prepayments for land	*6*	**45,086**	**-**	57,200	-
Investments in subsidiaries	*8*	**-**	**45**	-	5,045
Investments in associates	*7*	**2,944**	**2,476**	43,802	41,089
Financial assets at fair value through profit or loss	*7*	**32,956**	**32,956**	-	-
Long-term loans receivable		**-**	**-**	632	-
Property and equipment		**266**	**2**	225	-
Intangible assets		**5**	**-**	4	-
Total non-current assets		**115,793**	**35,479**	142,360	46,136
Current assets					
Inventories	*9*	**34,134**	**-**	44,580	-
Loans to Group companies	*11*	**-**	**134,250**	-	152,145
Trade and other receivables	*10*	**2,530**	**376**	3,427	1,474
VAT recoverable		**2,006**	**-**	1,249	-
Prepaid income tax		**40**	**-**	47	-
Cash and cash equivalents	*12*	**24,767**	**22,053**	21,715	15,049
Total current assets		**63,477**	**156,679**	71,018	168,668
Total assets		**179,270**	**192,158**	213,378	214,804

The consolidated and Parent Company statements of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out below.

(in thousands of USD)	Note	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Equity and Liabilities					
Equity	*13*				
Share capital		**2,187**	**2,187**	2,187	2,187
Share premium		**277,265**	**277,265**	277,265	277,265
Accumulated losses		**(102,864)**	**(89,193)**	(75,328)	(66,460)
Total equity attributable to equity holders of the Parent Company		**176,588**	**190,259**	204,124	212,992
Non-controlling interest		**(14,846)**	**-**	(6,084)	-
Total equity		**161,742**	**190,259**	198,040	212,992
Non-current liabilities					
Finance lease liabilities	*14*	**331**	**-**	367	-
Deferred tax liabilities	*15*	**7,096**	**-**	9,753	-
Total non-current liabilities		**7,427**	**-**	10,120	-
Current liabilities					
Trade and other payables	*16*	**10,051**	**1,899**	5,141	1,812
Current portion of finance lease liabilities	*14*	**35**	**-**	71	-
Income tax payable		**15**	**-**	6	-
Total current liabilities		**10,101**	**1,899**	5,218	1,812
Total liabilities		**17,528**	**1,899**	15,338	1,812
Total equity and liabilities		**179,270**	**192,158**	213,378	214,804

These consolidated and Parent Company financial statements were approved by the Board of Directors on 16 May 2014 and were signed on its behalf by:

Chairman of the board Rory Macnamara

Non-executive director Fredrik Svinhufvud

The consolidated and Parent Company statements of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out below.

(in thousands of USD)	Note	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Rental income from investment property		**27**	**-**	18	-
Profit from sales of investment properties		**247**	**108**	280	309
Profit from sale of trading property		**5**	**-**	-	-
Loss on revaluation of investment properties	*5*	**(6,973)**	**-**	(634)	-
Impairment loss on prepayments for land	*6*	**(13,319)**	**-**	(10,217)	-
Write-down of inventories to net realisable value	*9*	**(14,043)**	**-**	(1,700)	-
Management fee	*17*	**(2,500)**	**(2,500)**	(3,109)	(3,109)
Administrative expenses	*19*	**(2,294)**	**(1,385)**	(2,938)	(2,140)
Other income		**2,688**	**2,494**	69	-
Other expenses		**(184)**	-	(53)	-
Loss from operating activities		**(36,346)**	**(1,283)**	(18,284)	(4,940)
Gain/(loss) on disposal of subsidiary	*4*	**-**	**-**	8	(42)
Impairment of investments	*7*	**-**	**(8,607)**	-	(2,609)
Change in fair value of financial assets at fair value through profit or loss		**825**	**2,950**	-	-
Net finance income/(costs)	*20*	**56**	**(15,793)**	52	(888)
Share of the (loss)/profit of associates	*7*	**(3,475)**	**-**	1,944	-
Loss before income tax		**(38,940)**	**(22,733)**	(16,280)	(8,479)
Income tax benefit	*15*	**2,642**	**-**	1,007	-
Net loss and total comprehensive loss for the year		**(36,298)**	**(22,733)**	(15,273)	(8,479)
Attributable to:					
Equity holders of the Parent Company		**(33,814)**	**(22,733)**	(13,771)	(8,479)
Non-controlling interest		**(2,484)**	**-**	(1,502)	-
Net loss and total comprehensive loss for the year		**(36,298)**	**(22,733)**	(15,273)	(8,479)
Loss per share					
Basic loss per share (in USD)	*22*	(0.31)	(0.21)	(0.13)	(0.08)
Diluted loss per share (in USD)	*22*	(0.31)	(0.21)	(0.13)	(0.08)

The directors believe that all results are derived from continuing activities.

The consolidated and Parent Company statements of financial position are to be read in conjunction with the notes to, and forming part of, the financial statement set out below.

(in thousands of USD)	Note	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Cash flows from operating activities					
Loss before income tax		**(38,940)**	**(22,733)**	(16,280)	(8,479)
Adjustments for:					
Write-down of inventories to net realisable value	*9*	**14,043**	**-**	1,700	-
Loss/(gain) on disposal of subsidiaries	*4*	**-**	**-**	(8)	42
Impairment of investments	*7*	**-**	**8,607**	-	2,609
Change in fair value of financial assets at fair value through profit or loss		**(825)**	**(2,950)**	-	-
Loss on revaluation of investment properties	*5*	**6,973**	**-**	634	-
Impairment loss on prepayments for land	*6*	**13,319**	**-**	10,217	-
Depreciation		**31**	**-**	11	10
Share of the loss/(profit) of associates		**3,475**	**-**	(1,944)	-
Unrealised currency exchange gains	*20*	**(43)**	**(33)**	(42)	(15)
Net financial (income)/expense, excluding unrealised currency exchange losses	*20*	**(13)**	**15,826**	(10)	903
Share-based payments	*18*	**-**	**-**	3	3
Operating cash flows before changes in working capital		**(1,980)**	**(1,283)**	(5,719)	(4,927)
Change in inventories	*9*	**(3,584)**	**-**	(2,568)	-
Change in trade and other receivables		**60**	**(40)**	(1,045)	16
Change in trade and other payables		**5,125**	**87**	1,905	124
Income tax paid		**16**	**-**	(3)	-
Interest paid		**(69)**	**-**	(91)	-
Cash flows used in operating activities		**(432)**	**(1,236)**	(7,521)	(4,787)

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

(in thousands of USD)	Note	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Cash flows from investing activities					
Interest received		**18**	**60**	85	56
Acquisition and development of investment property	*5*	**(2,127)**	**-**	(60)	-
Acquisition of property, equipment and intangible assets		**(73)**	**-**	(206)	-
Prepayments for land	*6*	**(1,205)**	**-**	(317)	-
Repayments of loans granted		**540**	**-**	304	-
Loans to Group companies (granted)/repaid	*11*	**-**	**(3,243)**	-	(4,159)
Dividends received	*7*	**6,392**	**6,392**	873	873
Proceeds from disposal of subsidiaries	*4,8*	**-**	**5,000**	4	5
Investment in associates	*7*	**(2)**	**(2)**	(6)	(6)
Cash flows from/(used in) investing activities		**3,543**	**8,207**	677	(3,231)
Cash flows from financing activities					
Repayment of finance lease liability		**(102)**	**-**	(187)	-
Cash flows used in financing activities		**(102)**	**-**	(187)	-
Net change in cash and cash equivalents		**3,009**	**6,971**	(7,031)	(8,018)
Cash and cash equivalents at 1 January	*12*	**21,715**	**15,049**	28,704	23,052
Effect of foreign exchange fluctuation on cash balances		**43**	**33**	42	15
Cash and cash equivalents at 31 December	*12*	**24,767**	**22,053**	21,715	15,049

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

Consolidated

(in thousands of USD)	**Share capital**	**Share premium**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total**
	Attributable to equity holders of the Parent Company					
Balances at 1 January 2012	2,187	277,265	(61,560)	217,892	(4,582)	213,310
Total comprehensive loss for the year						
Net loss	-	-	(13,771)	(13,771)	(1,502)	(15,273)
Total comprehensive loss for the year	-	-	(13,771)	(13,771)	(1,502)	(15,273)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based compensation	-	-	3	3	-	3
Total contributions by and distributions to owners	-	-	3	3	-	3
Balances at 31 December 2012	2,187	277,265	(75,328)	204,124	(6,084)	198,040
Total comprehensive loss for the year						
Net loss	-	-	**(33,814)**	**(33,814)**	**(2,484)**	**(36,298)**
Total comprehensive loss for the year	-	-	**(33,814)**	**(33,814)**	**(2,484)**	**(36,298)**
Transactions with owners, recorded directly in equity						
Changes in ownership interests						
Disposal of non-controlling interests without a change in control (note 4(a))	**-**	**-**	**6,278**	**6,278**	**(6,278)**	**-**
Total changes in ownership interests	-	-	**6,278**	**6,278**	**(6,278)**	**-**
Balances at 31 December 2013	**2,187**	**277,265**	**(102,864)**	**175,588**	**(14,846)**	**161,742**

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

Parent Company

(in thousands of USD)	**Share capital**	**Share premium**	**Retained earnings/ (accumulated losses)**	**Total**
Balances at 1 January 2012	2,187	277,265	(57,984)	221,468
Total comprehensive income for the year				
Net loss	-	-	(8,479)	(8,479)
Total comprehensive loss for the year	-	-	(8,479)	(8,479)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Share-based compensation	-	-	3	3
Total contributions by and distributions to owners	-	-	3	3
Balances at 31 December 2012	2,187	277,265	(66,460)	212,992
Total comprehensive income for the year				
Net loss	**-**	**-**	**(22,733)**	**(22,733)**
Total comprehensive loss for the year	**-**	**-**	**(22,733)**	**(22,733)**
Balances at 31 December 2013	**2,187**	**277,265**	**(89,193)**	**190,259**

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

1. Background

(a) Organisation and operations

Dragon – Ukrainian Properties & Development plc (the Parent Company) was incorporated in the Isle of Man on 23 February 2007. The Parent Company's registered office at the date when these financial statements were approved was 2nd Floor, Belgravia House, 34-44 Circular Road, Douglas, Isle of Man IM1 1AE and its principal place of business is Ukraine.

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

The consolidated financial statements as at 31 December 2013 comprise the Parent Company and its subsidiaries and the Group's interest in associates (together referred to as the Group).

The main activities of the Group are investing in the development of properties in Ukraine.

(b) Business environment

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the 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. These consolidated financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

The Directors believe that they are taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

2. Basis of preparation

(a) Statement of compliance

These consolidated and Parent Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

(b) Basis of measurement

The consolidated and Parent Company financial statements are prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss, which are carried at fair value.

(c) Functional and presentation currency

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

The Group consists of entities that are domiciled in Ukraine, Cyprus, British Virgin Islands and Isle of Man, and as a result there are a number of currencies in use by group entities.

However, the Directors believe 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 IFRS as adopted by the EU requires the Directors to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

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

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

- Note 5 - Valuation of investment properties
- Note 6 – Valuation of prepayments for land
- Note 7 – Impairment of investments in associates
- Note 9 – Net realisable value of trading property.

(e) Going concern

These consolidated financial statements are prepared on a going concern basis. In the year ended 31 December 2013 the Group incurred a net loss of USD 36,298 thousand and had negative cash flows from operating activities of USD 432 thousand. As at that date the Group's current assets exceeded its current liabilities by USD 53,376 thousand and its Net Asset Value amounted to USD 161,742 thousand.

The Directors believe that the Group's existing cash resources are sufficient to meet the Group's liabilities for the foreseeable future and therefore that the going concern basis for preparing these consolidated financial statements is appropriate.

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, except as explained in note 3(s), which addresses change in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 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 recognised directly in equity.

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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

Consolidated subsidiaries include the following:

Name	Country of incorporation	Cost		% of ownership	
		2013	2012	**2013**	2012
(in thousands of USD, except for % of ownership)					
Bi Dolyna Development LLC	Ukraine	**28**	28	**100%**	100%
EF Nova Oselya LLC	Ukraine	**51**	51	**100%**	100%
Glangate LTD	Cyprus	**2**	2	**100%**	100%
Grand Development LLC	Ukraine	**4,732**	4,732	**100%**	100%
J Komfort Neruhomist LLC	Ukraine	**1,505**	1,505	**100%**	100%
Korona Development LLC	Ukraine	**1,514**	1,514	**100%**	100%
Landshere LTD	Cyprus	**3**	3	**90%**	95%
Landzone LTD	Cyprus	**1,503**	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	**16,648**	16,470	**100%**	98%
Riverscope LTD	Cyprus	**3**	3	**90%**	95%
Startide LTD	Cyprus	**3**	3	**100%**	100%
Blueberg Trading Ltd	BVI	**-**	-	**100%**	100%
Stenfield Finance Ltd	BVI	**-**	-	**100%**	100%
New Region LLC	Ukraine	**4,507**	4,507	**100%**	100%
Rivnobud LLC	Ukraine	**4,377**	4,471	**100%**	100%
Commercial project LLC	Ukraine	**1**	1	**100%**	100%
Riviera Villas LLC	Ukraine	**1,048**	360	**100%**	100%
Z Development LLC	Ukraine	**25**	25	**100%**	100%

Z Neruhomist LLC	Ukraine	**19**	19	**100%**	100%
Closed investment fund "Development"	Ukraine	**2,775**	178	**100%**	100%

On 3 March 2012 Startide LTD acquired 100% in the closed non-diversified venture investment fund "Development" (Fund "Development") through the purchase of 14,300 investment certificates for a total consideration of USD 178 thousand. The Group intends to use Fund "Development" as a financial vehicle for the Obolon project.

During 2013 the Group increased its investment in Fund "Development" by acquiring an additional 201,220 investment certificates for a total consideration USD 2,597 thousand.

Based on a written resolution of the sole shareholder of Landzone LTD on 14 February 2013 the share premium of USD 5,000 thousand was returned to the Parent company as this amount exceeds the needs of Landzone LTD.

(ii) 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 7).

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

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

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

(iii) Joint operations

A joint operation is a joint arrangement carried on by each joint operator using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency and operations

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

(c) Financial instruments

(iii) Non-derivative financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

Loans and receivables comprise the following classes of assets: trade and other receivables as presented in note 10, loans receivable, loans to Group companies as presented in note 11 and cash and cash equivalents as presented in note 12.

Available-for-sale financial assets

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

Cash and cash equivalents

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

(iv) Non-derivative financial liabilities

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

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

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

Other financial liabilities comprise trade and other payables as presented in note 16 and finance lease liabilities 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.

(v) Share capital

Ordinary shares

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

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

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

(vi) Derivative financial instruments

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

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

(d) Investment properties

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

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 its intended use and capitalised 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.

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

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

(iii) Reclassification to owner-occupied property or inventory

When the use of a property changes from investment property carried at fair value to owner-occupied property or inventory, the property's deemed cost for subsequent accounting in accordance with IAS 16 *Property, Plant and Equipment* or IAS 2 *Inventories* is its fair value at the date of change in use. Any gain or loss arising on revaluation as at the date of transfer is recognised in profit or loss.

(e) Prepayments for land

Prepayments for land are measured at cost less any accumulated impairment losses. The carrying amounts of prepayments for land 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 details of the impairment assessment refer to note 3(j)(ii).

(f) 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 labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is recognised 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

(g) Intangible assets

(i) Goodwill

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

Initial measurement and recognition

The Group measures goodwill at the acquisition date as:

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

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

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

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 and its cost can be measured reliably. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(h) 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.

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

(i) Inventories

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

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

(j) 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 the Directors' judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

Available-for-sale financial assets

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

(ii) Non-financial assets

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

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

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

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

(k) Share-based payments

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

For equity settled share-based payment transactions other than transactions with directors and 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.

(l) Provisions

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

(m) Rental income from investment properties

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

(n) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost 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. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement contains a right to use the asset.

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

(o) Finance income and costs

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

Finance costs comprise interest expense, fair value losses on financial assets at fair value through profit or loss, impairment loss on financial assets and currency exchange losses.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(p) Income tax expense

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

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

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

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

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

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

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

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

(q) 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.

(r) 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.

The Directors 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 results is also done on the basis of individual projects.

(s) Changes in accounting policy

From 1 January 2013, the Group adopted Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*, IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*, IFRS 13 *Fair Value Measurement,* IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 10 *Consolidated Financial Statements*.

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. Application of amendments to IAS 1 did not have significant impact on these consolidated and Parent Company financial statements.

- Amendments to IFRS 7 *Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. Application of amendments to IFRS 7 did not have significant impact on these consolidated and Parent Company financial statements.

- IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. Application of IFRS 13 resulted in extended disclosures in respect of fair value of investment properties made in these consolidated and Parent Company financial statements.

- IFRS 10 *Consolidated Financial Statements* introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Application of this standard had no impact on the recognised assets, liabilities and comprehensive income of the Group.

- As a result of IFRS 11 *Joint Arrangements,* the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. Application of this standard had no impact on consolidation of the Group's investees.

- IFRS 12 *Disclosure of Interests in Other Entities* contains requirements on additional disclosures about the Group's interests in subsidiaries and equity-accounted investees. Application of this standard had no impact on the consolidated and Parent Company financial statements.

(t) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability,

either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

When applicable, further information about the assumptions made in measuring fair values is disclosed in the notes specific to that asset or liability.

(u) 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 2013, and have not been applied in preparing these consolidated and Parent Company financial statements. Of these pronouncements, potentially the following will have an impact on these consolidated and Parent Company financial statements. Management plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018 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 third phase was issued in November 2013 and relates to general hedge accounting. The final standard is expected to be issued in 2014. 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. The Group does not intend to adopt this standard early.

Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendment is not expected to have significant impact on the consolidated and Parent Company financial statements.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. Disposal of subsidiaries and non-controlling interests

(a) Disposal of non-controlling interests

In January 2013 the Group disposed of a 5 per cent interest in Riverscope Ltd (Land bank project) for USD 133 in cash (equivalent of EUR 100), decreasing its ownership from 95 to 90 per cent. The carrying amount of Riverscope Ltd negative net assets in the Group's financial statements on the date of disposal was USD 62,828 thousand. The Group recognised an increase in non-controlling interests of USD 3,141 thousand and decrease in accumulated losses of USD 3,141 thousand.

In January 2013 the Group disposed of a 5 per cent interest in Landshere Ltd (project Land bank) for USD 133 in cash (equivalent of EUR 100), decreasing its ownership from 95 per cent to 90 per cent. The carrying amount of Landshere Ltd negative net assets in the Group's financial statements on the date of disposal was

USD 62,736 thousand. The Group recognised a decrease in non-controlling interests of USD 3,137 thousand and decrease in accumulated losses of USD 3,137 thousand.

(b) Disposal of subsidiaries

In April 2012 the Group sold Ukrainian Development Holding LTD for USD 3 thousand to Mr. Georgios Chr. Kyrou. The gain of USD 4 thousand as a result of this transaction was recognised in profit or loss.

The disposal of the subsidiary had the following effect on assets and liabilities on the date of disposal:

(in thousands of USD)	**Recognised values on the date of loss of control over subsidiary**
Current assets	
Cash and cash equivalents	1
Current liabilities	
Trade and other payables	(2)
Net identifiable assets and liabilities	**(1)**
Disposed Group's share in the net identifiable assets and liabilities	1
Selling price	3
Gain on disposal of subsidiary	**4**
Consideration received	3
Cash disposed	(1)
Net cash inflow	**2**

In April 2012 the Group sold Ukrainian Properties LTD for USD 2 thousand to Mittelmeer Nominees Limited. The gain of USD 4 thousand as a result of this transaction was recognised in profit or loss.

The disposal of the subsidiary had the following effect on assets and liabilities on the date of disposal:

(in thousands of USD)	**Recognised values on the date of loss of control over subsidiary**
Current liabilities	
Trade and other payables	(2)
Net identifiable assets and liabilities	**(2)**
Disposed Group's share in the net identifiable assets and liabilities	2
Selling price	2
Gain on disposal of subsidiary	**4**
Consideration received	2
Cash disposed	-
Net cash inflow	**2**

5. Investment properties and property under construction

Movements in investment properties and property under construction for the years ended 31 December are as follows:

(in thousands of USD)	Freehold land	Leasehold land	Total
At 1 January 2012	36,711	40,328	77,039
Transfer to inventories (note 9)	-	(33,658)	(33,658)
Changes in accounting estimates of finance lease liability	-	(2,310)	(2,310)
Land acquisition	1,441	-	1,441
Construction	2,037	5	2,042
Disposal of investment properties	(3,423)	-	(3,423)
Fair value loss on revaluation	(474)	(160)	(634)
At 31 December 2012	36,292	4,205	40,497
Construction	**1,956**	**66**	**2,022**
Disposal of investment properties	**(958)**	**-**	**(958)**
Fair value loss on revaluation	**(5,158)**	**(1,815)**	**(6,973)**
Other movements	**(7)**	**(45)**	**(52)**
At 31 December 2013	**32,125**	**2,411**	**34,536**

The carrying values for investment properties and property under construction as at 31 December are as follows:

(in thousands of USD)	**2013**	2012
Green Hills	**17,822**	19,000
Riviera Villas	**12,454**	14,592
Kremenchuk	**2,411**	4,205
Rivne	**1,849**	2,700
	34,536	40,497

Due to changes in the finance lease conditions during 2012 the Group recognised a decrease in finance lease liabilities of subsidiary New Region LLC, which holds the Kremenchuk project. The changes in finance lease conditions are as follows:

- reduction of rental rate from 10% to 3% of the normative value of the land plot
- increase of correction coefficient from 0.65 to 0.85, applied to "normative valuation" ("normative valuation" – is a valuation of different types of land according to the methodology and rates set up by government regulations) in accordance with the decision of the Kremenchuk City Council of 25 December 2012.

Mountcrest Limited (Mountcrest - a Group subsidiary) and Intendancy Limited (Intendancy - third party) entered into a Project Development Agreement on 12 December 2007. It was agreed to undertake and bear all design, engineering and construction costs as well as the costs incurred in connection with the maintenance and development of the land plots and facilities of the Riviera Villas project (one of the Group's projects) in the following proportion:

- Mountcrest is to bear or reimburse 58.21% of costs incurred in the process of land plot development and Intendancy 41.79%
- Mountcrest is to bear or reimburse 59.56% of costs incurred in the process of real estate construction and Intendancy 40.44%.

Irrespective of legal titles that may be attached to the land plots of each of the parties, all benefit from sale or usage of investment property will be split in the following proportion: Mountcrest is entitled to 59.56% of all benefits and Intendancy is entitled to 40.44% of all benefits.

On 20 February 2012 an amendment to the Project Development Agreement was signed. In accordance with this amendment Mountcrest transferred all its rights and obligations under the Project Development Agreement to Stenfield Finance Limited (Stenfield) (a Group subsidiary).

On 20 September 2012 Stenfield and Intendancy (together referred to as the Parties) signed an Amended and Restated Project Development Agreement and agreed to acquire title or to hold under control additional land plots with a total area of 1.7244 hectares (ha) (the Additional Land Plots) for residential real estate construction. The Parties agreed to bear the acquisition costs of the Additional Land Plots in the same proportions they bear costs incurred in the process of real estate construction. The purchase price of USD 2,346 thousand was paid in full by Intendancy and Stenfield reimbursed the amount equivalent to its share in the project as stipulated above. This reimbursement was effected by Stenfield making contributions from its share of future sales proceeds less the budgeted amount of the capital expenditures for the development of the project.

The fair value measurement, developed for determination of fair value of the Group's investment property, is categorised within Level 3 of the IFRS 7 fair value hierarchy, due to the significance of unobservable inputs to the measurement. To assist with the estimation of fair value of investment properties and property under construction as at 31 December 2013 (represented by land plots for cottage communities and trade centres) the Directors engaged registered independent appraiser DTZ Kiev B.V. (CB Richard Ellis LLC in 2012), having a recognised professional qualification and recent experience in the location and categories of the projects being valued.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation is prepared in accordance with practice standards contained in the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) or in accordance with International Valuation Standards published by the International Valuations Standards Council.

In the absence of current prices in an active market, the valuations are prepared under the income approach by converting estimated future cash flows to a single current capital value.

Land parcels are value based on market prices for similar properties.

The estimation of fair value was made using a net present value calculation based on certain assumptions, which represent key unobservable inputs, the most important of which as at 31 December 2013 are as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 5 to USD 47 per sq. m.
- development costs based on current construction prices
- average land sales price ranging from USD 1,385 to USD 2,180 per sq.m.
- discount rates from 12% to 20.4%
- sales period – from 1 to 5 years
- 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 2012 the respective assumptions, which represent key unobservable inputs for determination of fair value, were as follows:

- monthly rental rates - which were based on current rental rates ranging from USD 9 to USD 30 per sq. m.
- development costs based on current construction prices
- average land sales price ranging from USD 1,304 to USD 1,921 per sq.m.
- discount rate of 10%
- sales period – from 1 to 4 years
- developer's profit ranging from 20% to 28%
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

Sensitivity

If sales prices and rental rates are 5% less than those used in the valuation models, the fair value of investment properties as at 31 December 2013 would be USD 6,946 thousand lower (2012: USD 6,781 thousand). If sales prices and rental rates are 5% higher, then the fair value of investment properties as at 31 December 2013 would be USD 6,946 thousand higher (2012: USD 6,781 thousand).

If development costs are 5% higher than those used in the valuation models, the fair value of investment properties as at 31 December 2013 would be USD 3,312 thousand lower (2012: USD 3,920 thousand). If development costs are 5% less, then the fair value of investment properties as at 31 December 2012 would be USD 3,312 thousand higher (2012: USD 3,920 thousand).

If the discount rate applied is 1% higher than that used in the valuation models, the fair value of investment properties as at 31 December 2013 would be USD 1,079 thousand lower (2012: USD 1,240 thousand). If the discount rate is 1% less, then the fair value of investment properties as at 31 December 2013 would be USD 1,064 thousand higher (2011: USD 1,240 thousand).

If the sales period is 1 year longer than that used in the valuation model, the fair value of investment properties as at 31 December 2013 would be USD 5,533 thousand lower (2012:USD 4,518 thousand).

6. Prepayments for land

During 2013 the Group made prepayments for land acquisition totalling USD 1,205 thousand (land bank project). As a result of this transaction the gross prepayments for land before impairment losses increased from USD 125,161 thousand as at 31 December 2012 to USD 126,366 thousand as at 31 December 2013.

The investment in land bank projects has been historically reflected at cost less impairment. Land plots for the land bank project with a total area of 483 ha are currently registered for agricultural use, and the rezoning process to change the purpose of the land plots to construction use was in progress as at 31 December 2013 and 2012. Land plots with a total area of 19.9 ha had been rezoned for construction use by the end of 2012. In order to determine whether any impairment losses should be recognised, the Board determined the fair value of the land bank with the help of independent appraiser (DTZ Kiev B.V. in 2013, CB Richard Ellis LLC in 2012). The fair value of the land bank was determined using agricultural and residential property comparatives according to actual land plot zoning and discounting for the time period likely to be required to sell the land plots.

The estimation of fair value of the underlying assets (the land plots) was made based on certain assumptions, the most important of which as at 31 December 2013 are as follows:

- average market prices ranging from USD 140 thousand to USD 420 thousand per ha
- discount rates ranging from 13% to 14%
- sales period – from 1 to 6 years

As at 31 December 2012 the respective assumptions were as follows:

- average market prices ranging from USD 134 thousand to USD 242 thousand per ha

- discount rate of 12%
- sales period – from 1 to 3 years

Having reviewed the estimation of fair value prepared by the independent appraiser DTZ Kiev B.V. the Board of Directors, as advised by the audit committee, decided to recognise additional impairment of USD 4,851 thousand mainly representing the effects of applying an assumption of longer sales periods than that used by the appraiser.

In total the Group recognised an impairment loss on prepayments for land of USD 13,319 thousand for the year ended 31 December 2013 (2012: USD 10,217 thousand).

In December 2008 the Group entered into the following pledge agreements to secure prepayments for land. During 2009 - 2011 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 as at 31 December 2013 are as follows:

Date of signing	Pledgor	Collateral	Gross 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 82.5 hectares located in the Kyiv region.	**16,347**	**15,935**
25 December 2008	Land Investments LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 271.9 hectares located in the Kyiv region.	**54,727**	**52,640**
25 December 2008	Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 148.6 hectares located in the Kyiv region.	**54,897**	**56,269**
			125,971	**124,844**

The main conditions of the agreements as at 31 December 2012 are as follows:

Date of signing	Pledgor	Collateral	Gross 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 82.5 hectares located in the Kyiv region.	**15,935**	**15,935**
25 December 2008	Land Investments LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 272.5 hectares located in the Kyiv region.	**52,640**	**52,640**
25 December 2008	Naukovo-doslidne innovatsiyne gospodarstvo LLC, Ukraine	The corporate rights of Pledgor in Ukrainian subsidiaries that own land amounting to 148.6 hectares located in the Kyiv region.	**56,586**	**56,269**

125,161	**124,844**

These tables summarise the amount of prepayment intended to be secured by collateral rather than the fair value of the collateral itself. The fair value (or market value) of the land plots owned by the above entities is shown below.

Movements in prepayments for land for the years ended 31 December are as follows:

(in thousands of USD)	**Prepayments for land**
At 1 January 2012	**67,100**
Prepayment made	317
Impairment loss	(10,217)
At 31 December 2012	**57,200**
Prepayment made	1,205
Impairment loss	(13,319)
At 31 December 2013	**45,086**

Sensitivity

If average market prices are 10% less than those used in the valuation model, the fair value of the land plots as at 31 December 2013 would be USD 4,968 thousand lower (2012: USD 5,720 thousand). If average market prices are 10% higher, then the fair value of the land plots as at 31 December 2013 would be USD 4,968 thousand higher (2012: USD 5,720 thousand).

If sales periods are 4 years longer than those used in the valuation model, the fair value of the land plots as at 31 December 2013 would be USD 11,546 thousand lower (2012: USD 20,848 thousand).

If the discount rate applied is 1% higher than that used in the valuation model, the fair value of the land plots as at 31 December 2013 would be USD 1,859 thousand lower (2012: USD 1,505 thousand). If the discount rate is 1% less, then the fair value of the land plots as at 31 December 2013 would be USD 1,859 thousand higher (2012: USD 1,560 thousand).

7. Investments in associates

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

Name	**Country**	**Ownership/Voting**	
		2013	2012
Henryland Group Ltd.	British Virgin Islands	**38.00%**	38.00%
Hindale Executive Investments Limited	Cyprus	**18.77%**	18.77%
Arricano Real Estate plc	Cyprus	**-**	16.67%

The values of Group's shares in the associates as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Henryland Group Ltd	**2,476**	**2,476**	11,086	11,083
Hindale Executive Investments Limited	**468**	**-**	-	-
Arricano Real Estate plc	-	-	32,716	30,006
Total	**2,944**	**2,476**	43,802	41,089

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

(in thousands of USD)	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Profit/(loss)**
2013					
Henryland Group Ltd.	**38.00%**	**6,910**	**401**	**4,142**	**2,822**
Hindale Executive Investments Limited	**18.77%**	**3,123**	**629**	**-**	**(5,720)**
		10,033	**1,030**	**4,142**	**(2,898)**
2012					
Henryland Group Ltd.	38.00%	38,376	9,147	4,278	686
Hindale Executive Investments Limited	18.77%	9,805	1,687	-	(536)
Arricano Real Estate plc	16.67%	250,083	115,515	16,421	19,847
		298,264	126,349	20,699	19,997

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 provides that significant operating decisions require consent by all parties to the above shareholders' agreement.

Investments in Henryland Group Ltd

During 2013 the Parent Company recognised dividend income of USD 5,254 thousand from its investments in Henryland Group Ltd (2012: USD 2,011 thousand). Dividends of USD 6,392 thousand were received in cash during 2013 (2012: USD 873 thousand).

During 2013 the Parent Company recognised impairment of its investment in Henryland Group Ltd of USD 8,607 thousand (2012: USD 1,754 thousand).

Investments in Hindale Executive Investments Limited

In October 2009, due to the fact that certain conditions set out 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 Executive Investments Limited ("Hindale Ltd") from 50% + 1 share to 18.77% and as a result in Promtek LLC

(“Promtek”), which is 100% owned by Hindale Ltd. Promtek’s sole purpose is to develop the Avenue project.

The share capital held by the Group of Hindale Ltd was decreased by 1,539 ordinary shares. 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 the shares over the purchase price was determined by the Group to be the fair value of the call option and was recognised in the consolidated statement of financial position. By the end of 2011 the fair value of the call option decreased to nil.

The lease agreement for the land plot on which Hindale Ltd is planning to construct the real estate expired on 2 July 2012. There was a risk of non-prolongation of the lease term. Taking this into account the Board decided to fully write off the Avenue project as at 31 December 2012. As a result, impairment of investments in Hindale Ltd of USD 1,624 thousand was recognised for the year ended 31 December 2012.

On 12 December 2013 the extension of the lease agreement was signed by the Kyiv City Council and consequently the Directors decided to reverse the impairment in the amount of USD 468 thousand for the year ended 31 December 2013.

Investment in Arricano Real Estate plc

On 10 September 2010 the Parent Company entered into a Shareholders’ Agreement (SHA) with Expert Capital SA (currently - Retail Real Estate SA, RRE) and Arricano Trading Limited (currently – Arricano Real Estate, Arricano) and 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 was earmarked to fund further development of shopping centres and to repay certain existing Arricano debt. In August 2012, the shareholders of Arricano approved a pre-emptive share issue of an additional 25,848 ordinary shares at par value of EUR 1.00 each to the existing shareholders, bringing the total number of shares to 32,310. In September 2012 further shareholder resolutions were passed to increase Arricano’s share capital, bringing the total issued share capital to EUR 42,513.16 and the total number of shares to 64,620,000 and the Parent Company’s share to 10,770,000 ordinary shares representing 16.67% of total shareholding. The Parent Company made a contribution to the share capital of Arricano of USD 6 thousand (equivalent of EUR 4 thousand) fully paid in cash which equaled 16.67% of the newly issued shares.

On 26 September 2012, in anticipation of a planned listing on the AIM market of the London Stock Exchange, the Board of Arricano approved the issuance of 20,406,316 shares of Arricano to a series of investors in accordance with the previous shareholder resolution. However, as the AIM listing did not proceed as planned, the monies paid by the new investors for the shares were returned to subscribers and 20,406,316 shares remained unpaid. Consequently, Arricano commenced a forfeiture procedure over the 20,406,316 issued shares. This procedure provides for the return of the unpaid shares to Arricano and their consequent cancellation. Consequently, the Parent Company’s share in Arricano as at 31 December 2012 continued to represent 16.67% with 10,770,000 ordinary shares.

As at 30 June 2013 ELQ Investors II Ltd had not exercised its right to convert its holding of a convertible loan facility into 10,770,000 Arricano ordinary shares. Therefore the underlying 10,770,000 Arricano ordinary shares were returned by the escrow agent and allocated to RRE and the Parent Company in the proportion they owned Arricano shares before Arricano had entered into the convertible loan facility. On 12 August 2013 the Parent Company received 2,154,000 ordinary shares at par value which brought the total Parent Company shareholding to 12,924,000 ordinary shares or 12.19% of the increased authorised share capital of 106,000,000.

On 2 August 2013 Arricano made a public statement that it intended to list its shares on AIM in August-September 2013 at a valuation of USD 2.33 per share. As part of this initial public offering, on 20 July 2013 the shareholders of the Arricano approved an increase of the Arricano’s authorised share capital to EUR 53,000 divided into 106,000,000 ordinary shares of nominal value EUR 0.0005 each.

On 12 September 2013 Arricano was admitted for trading on the AIM market of the London Stock Exchange. In conjunction with the IPO, Arricano issued a further 38,650,637 ordinary shares, which increased its equity by USD 93,759 thousand. Of that, 28,350,214 ordinary shares were issued to entities under the common control of Hillar Teder, the ultimate beneficial holder of the principal shareholder of Arricano, as consideration for the acquisition of certain entities at a fair value of USD 66,056 thousand, and 10,300,423 ordinary shares were issued for cash at a price of USD 2.33 per share. The cash proceeds from the placement of 10,300,423 ordinary shares, net of direct costs related to the IPO process of USD 1,757 thousand, amounted to USD 22,243 thousand. As at 31 December 2013, 2,729,363 ordinary shares are not allotted and remain unpaid.

The total Parent Company shareholding of 12,924,000 ordinary shares in Arricano equates to 12.51% of the 103,270,637 issued and fully paid shares as at 31 December 2013. As at 31 December 2013, the closing middle-market price of shares of Arricano were USD 2.55 per share valuing the Parent Company's shareholding in Arricano to USD 32,956 thousand. At the date when these financial statements were authorised for issuance Arricano shares were quoted at a mid-market price at USD 2.475 per share.

During 2012 the Parent Company recognised a recovery of impairment of its investment in Arricano of USD 598 thousand.

As at 31 December 2012 the net assets of Arricano included the following:

(in thousands of USD)	**Total recognised carrying values**
Net assets attributable to Arricano	134,568
49.97% of loans receivable planned to be assigned to SPV	61,687
Net assets	**196,255**

Prior to the IPO of Arricano the Parent Company had the right to appoint one (out of four) representatives to the Board of Directors of Arricano. Pursuant to the SHA, the management structure of Arricano provided that significant operating, investment and strategic decisions required consent by each member of the Board of Directors of Arricano appointed by the Parent Company and RRE. As at 31 December 2013 Arricano's Board comprises six directors. The decisions are now decided by a majority of votes and in case of an equality of votes, the chairman has a second, or casting, vote.

Based on the above mentioned considerations, the Directors believe that from the date of Arricano's IPO the Parent Company does not have significant influence over Arricano. As a result, the investment was reclassified from investments in associates to financial assets at fair value through profit or loss and categorised in Level 1 of the fair value hierarchy.

8. Investments in subsidiaries

Investments in subsidiaries as at 31 December are as follows:

(in thousands of USD)	**2013**	2012
Glangate LTD	**2**	2
Landshere LTD	**3**	3
Landzone LTD	**1,503**	6,503
Linkdell LTD	**3**	3
Linkrose LTD	**3**	3
Mountcrest LTD	**64**	64
Riverscope LTD	**3**	3

Startide LTD	**3**	3
	1,584	6,584
Impairment	**(1,539)**	(1,539)
	45	5,045

9. Inventories

Inventories as at 31 December are as follows:

(in thousands of USD)	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Trading property	**5,142**	**-**	8,500	-
Trading property under construction	**28,899**	**-**	36,010	-
Other inventory	**93**	**-**	69	-
Construction materials	**-**	**-**	1	-
Total	**34,134**	**-**	44,580	-

As at 31 December 2013 and 2012 trading property was represented by the gated community Sadok Vyshnevyi (38 newly constructed flats in townhouses and relevant land plots) and the Obolon project (residential complex in Kyiv under construction).

As at 31 December 2013 trading property of USD 5,142 thousand (2012: USD 8,500 thousand) represented the net realisable value as estimated by the independent appraiser DTZ Kiev B.V. (CB Richard Ellis LLC in 2012). The impairment loss for the year ended 31 December 2013 of USD 3,490 thousand (31 December 2012: USD 1,700 thousand) was recognised in profit or loss.

Since the start of construction at the beginning of 2012 the Obolon project was transferred from investment properties to trading property under construction. As at 31 December 2012 the property value of USD 36,010 thousand represented its fair value at the date of reclassification plus the construction costs incurred during 2012. No write down to net realisable value was made between the date of transfer to trading property under construction and 31 December 2012, as the appraised net realisable value exceeded cost at that date. According to the report dated 22 January 2014 of DTZ Kiev B.V., the independent appraiser, the net realisable value of the Obolon project is less than the book value. The impairment loss for the year ended 31 December 2013 of USD 10,553 thousand was recognised in profit or loss.

The estimation of fair value of the inventories was made based on certain assumptions, the most important of which as at 31 December 2013 are as follows:

- average market prices ranging from USD 710 to USD 2,540 per sq m
- discount rates ranging from 12% to 19%
- sales period – from 3 to 4 years

As at 31 December 2012 the respective assumptions were as follows:

- average market prices ranging from USD 1,130 to USD 2,200 per sq m
- discount rates ranging from 10% to 13%
- developer’s profit of 21%
- sales period – from 2 to 4 years

10. Trade and other receivables

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Dividends receivable	**-**	**-**	1,138	1,138
Other receivables	**1,547**	**320**	1,811	318
Prepayments made	**983**	**56**	478	18
Total	**2,530**	**376**	3,427	1,474

Other receivables mainly include a receivable due from Intendancy as at 31 December 2013 amounting to USD 1,068 thousand (2012: USD 1,316 thousand) that relates to the sale of land plots in the Riviera Villas project in accordance with the Project Development Agreement concluded by the Group with Intendancy (see note 5).

Prepayments made include advances given to constructors on the Obolon project as at 31 December 2013 amounting to USD 850 thousand (2012: USD 95 thousand).

11. Loans to Group companies

Loans to Group companies as at 31 December are as follows:

(in thousands of USD)	**2013**	2012
Loans to Group companies	**307,916**	287,999
Allowance for impairment	**(173,666)**	(135,854)
	134,250	152,145

The loans to Group companies are denominated in USD, unsecured, interest free or interest bearing (up to 11%) and repayable on demand.

The movement in the allowance for impairment in respect of loans to Group companies during the years ended 31 December was as follows:

(in thousands of USD)	**2013**	2012
Balance at 1 January	**(135,854)**	(116,591)
Impairment loss recognised (note 20)	**(37,812)**	(19,263)
Balance at 31 December	**(173,666)**	(135,854)

The impairment loss on loans to Group companies is included in net finance costs, and results from the decrease in the fair values of land plots held by the Group companies that serve as underlying asset for these loans, and decreases in investment properties held by Group companies.

12. Cash and cash equivalents

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

(in thousands of USD)	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Bank balances	**8,666**	**7,047**	1,706	1,149
Call deposits	**16,101**	**15,006**	20,009	13,900
Total	**24,767**	**22,053**	21,715	15,049

The following table represents an analysis of cash and cash equivalents based on Fitch ratings as at 31 December:

(in thousands of USD)	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Bank balances				
AA	**-**	**-**	702	702
AA-	**351**	**351**	-	
A+	**5,137**	**5,105**	65	2
A	**1,608**	**1,591**	462	445
BB+	**-**	**-**	15	-
B	**-**	**-**	436	-
B-	**466**	**-**	-	-
CCC	**-**	**-**	26	-
Not rated	**1,104**	**-**	-	-
	8,666	**7,047**	1,706	1,149
Call deposits				
AA	**-**	**-**	3,900	3,900
A	**15,006**	**15,006**	15,000	10,000
B	**-**	**-**	450	-
B-	**1,095**	**-**	-	-
CCC	**-**	**-**	659	-
	16,101	**15,006**	20,009	13,900
Total	**24,767**	**22,053**	21,715	15,049

13. Equity

Movements in share capital and share premium as at 31 December are as follows:

	Ordinary shares	Amount
	Number of shares	*Thousand of USD*
Issued as at 31 December 2007, fully paid	140,630,300	2,813
Issued during 2008	1,698,416	34
Own shares repurchased and cancelled during 2008	(8,943,000)	(179)
Outstanding as at 31 December 2008, fully paid	133,385,716	2,668
Own shares repurchased and cancelled during 2009	(15,669,201)	(314)
Outstanding as at 31 December 2009, fully paid	117,716,515	2,354
Outstanding as at 31 December 2010, fully paid	117,716,515	2,354
Own shares repurchased and cancelled during 2011	(8,355,000)	(167)
Outstanding as at 31 December 2011, fully paid	109,361,515	2,187
Outstanding as at 31 December 2012, fully paid	109,361,515	2,187
Outstanding as at 31 December 2013, fully paid	**109,361,515**	**2,187**

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. The par value per ordinary share is USD 0.02. All issued shares are authorised and fully paid. Total authorised shares are 300,000,000.

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 recognised as share premium.

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

Following the extraordinary general meetings of members of the Parent Company on 31 July 2008 and 1 December 2008, 11,948,000 of its own shares were authorised for repurchase by the Parent Company and were annulled. The purchase price of repurchased shares ranged from USD 0.50 to USD 1.47 per share. The difference between the total price paid and par value is recognised 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 authorised for repurchase by the Parent Company and were annulled. The purchase price of repurchased shares ranged from USD 0.53 to USD 0.68 per share. The difference between the total price paid and par value is recognised as share premium decrease.

Following the extraordinary general meetings of members of the Parent Company on 9 November 2011 and 12 December 2011, 8,355,000 of its own shares were repurchased by the Parent Company and were cancelled. The purchase price of repurchased shares ranged from USD 0.48 to USD 0.63 per share. The difference between the total price paid and par value is recognised as share premium decrease.

14. Finance lease liabilities

Finance lease liabilities as at 31 December are as follows:

	Future minimum	**Interest**	**Present value of**	Future minimum	Interest	Present value of

(in thousands of USD)	**lease payments 2013**	**2013**	**minimum lease payments 2013**	lease payments 2012	2012	minimum lease payments 2012
Less than one year	**94**	**59**	**35**	141	70	71
Between one and five years	**315**	**223**	**92**	316	204	112
More than five years	**1,049**	**810**	**239**	1,146	891	255
	1,458	**1,092**	**366**	1,603	1,165	438

The imputed finance costs on the liabilities are based on the Group's incremental borrowing rate in UAH of 15.9% per annum in 2013 (2012: 15.9%). At the dates of entering the lease agreements the Group had no external borrowings, therefore, the incremental borrowing rate was estimated based on available market information.

Future minimum lease payments as at 31 December 2013 are based on the Directors' assessment and calculated based on the actual lease payments effective as at 31 December 2013. The future lease payments are subject to review and approval by various municipal authorities and may differ from the Directors' assessment. As a result of revised conditions for land lease agreements by municipal authorities during the year ended 31 December 2012 finance lease liabilities were reassessed. As a result, finance lease liabilities on the Obolon project decreased by USD 194 thousand and finance lease liabilities on the Kremenchug project decreased by USD 2,310 thousand during the year ended 31 December 2012 (note 5).

The contractual maturity of land lease agreements is 2023 - 2024. The Group intends to prolong these lease agreements for the period of construction and usage of the investment property being constructed on the leased land. Consequently, the minimum lease payments are calculated for a period of 15-50 years.

15. Taxation

(a) Income tax benefit

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

(in thousands of USD)	**Consolidated 2013**	**Parent Company 2013**	Consolidated 2012	Parent Company 2012
Current tax expense	**(15)**	**-**	(17)	-
Deferred income tax benefit	**2,657**	**-**	1,024	-
Total income tax benefit	**2,642**	**-**	1,007	-

According to the Ukrainian legislation effective as at 31 December 2013, the income tax rate applicable to Ukrainian companies in 2012 is 21%, in 2013 – 19%, in 2014 – 18%, in 2015 – 17%, and after 31 December 2015 – 16%. According to the recent changes of the Ukrainian tax legislation enacted after 31 December 2013, the income tax rate applicable for Ukrainian companies from 31 March 2014 will be fixed at 18%.

The applicable tax rate is 12.5% for Cyprus companies and 0% for British Virgin Islands and the Isle of Man. Hence, no further tax disclosure is applicable for the Parent Company.

(b) Reconciliation of effective tax rate

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

(in thousands of USD)	**2013**	**%**	2012	%
Loss before income tax	**(38,940)**	**100**	(16,280)	100
Computed expected income tax benefit at statutory rate	**(7,398)**	**(19)**	(3,418)	(21)
Effect of income taxed at lower tax rates	**581**	**1**	(11)	-
Change in unrecognised temporary differences	**1,133**	**3**	1,936	12
Non-deductible expenses	**3,042**	**8**	486	3
Effective income tax benefit	**(2,642)**	**(7)**	(1,007)	(6)

(c) Recognised deferred tax liabilities

The movement in deferred tax liabilities for the year ended 31 December 2013 is as follows:

(in thousands of USD)	**1 January 2013 liability**	**Recognised in income**	**31 December 2013 liability**
Investment properties	**(4,682)**	**1,119**	**(3,563)**
Trading properties under construction	**(5,141)**	**1,548**	**(3,593)**
Finance lease liabilities	**70**	**(10)**	**60**
Deferred tax liabilities	**(9,753)**	**2,657**	**(7,096)**

The movement in deferred tax liabilities for the year ended 31 December 2012 is as follows:

(in thousands of USD)	1 January 2012 liability	Recognised in income	Effect of transfer from investment properties to trading property	31 December 2012 liability
Investment properties	(11,308)	1,097	5,529	(4,68)
Trading properties under construction	-	388	(5,529)	(5,141)
Finance lease liabilities	531	(461)	-	70
Deferred tax liabilities	(10,777)	1,024	-	(9,753)

(d) Unrecognised deferred tax assets

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Trading property	**766**	-	417	-
Tax loss carry-forwards	**6,510**	-	5,726	-
	7,276	-	6,143	-

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

16. Trade and other payables

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Management fees	**1,250**	**1,250**	1,474	1,474
Other payables and accrued expenses	**1,350**	**174**	2,666	138
Advances received	**7,451**	**475**	1,001	200
Total current liabilities	**10,051**	**1,899**	5,141	1,812

17. Management and performance fees

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Management fee	**2,500**	**2,500**	3,109	3,109
Total	**2,500**	**2,500**	3,109	3,109

Unpaid management fees as at 31 December 2013 amounted to USD 1,250 thousand (2012: USD 1,474 thousand).

Initial Management Agreement

The Parent Company entered into a management agreement dated 16 May 2007 (the Management Agreement) 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 Parent 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 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. In addition the Manager was entitled to performance fees based on the net asset value (NAV) growth.

Second 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 (Second Revised Management Agreement). The performance fee was divided into two parts. One is based on NAV growth, and the second on share price growth. Therefore, prior to the Second 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 under the Second Revised Management Agreement the Manager is entitled to 10% of the amount of such increase in NAV growth in excess of 10%. The other performance fee of 10% is 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.

Since 1 December 2011 the Second Revised Management Agreement was subject to termination with six months' notice by either party.

Third Management Agreement

On 17 February 2014 an Extraordinary General Meeting of the shareholders approved a revision of the Management Agreement (Third Management Agreement) and accordingly the Parent Company entered into a new management agreement with DCM Limited (the entity which replaced Dragon Capital Partners Limited as the Manager).

The Directors (excluding Tomas Fiala who is a related party as explained in detail in the note 24) believe that the proposed changes incorporated into the Third Management Agreement will incentivise the Manager to:

- dispose promptly of the Group’s properties and
- achieve the best possible sales value for each property in order to maximise the cash returns to shareholders that would result in the Manager maximising the proposed performance fee payable under the Third Management Agreement.

The Third Management Agreement fees and term of the management agreement are summarised below.

Management fee

The management fee under the Third Management Agreement changes from a fee of 1.5 per cent. of Gross Asset Value to a fixed amount as follows:

- 1 January 2013 – 30 June 2013: USD 1.25 million
- 1 July 2013 – 31 December 2013: USD 1.25 million
- 1 January 2014 – 31 December 2014: USD 2.5 million
- 1 January 2015 – 31 December 2015: USD 2.1 million
- 1 January 2016 – 31 December 2016: USD 1.7 million
- 1 January 2017 – 31 December 2017: USD 1.5 million
- 1 January 2018 – 31 December 2018: USD 1.4 million

The management fee under the Third Management Agreement is payable in cash, semi-annually in July and January of each year, within 10 business days after the end of the relevant period.

Performance fee

The performance fee under the Third Management Agreement changed from one which is calculated in two parts, being an increase in NAV and also an increase in share price performance, to the following, based on distributions to shareholders:

• in relation to distributions up to threshold 1, a fee of 3.5 per cent. of such distributions;

• in relation to distributions from threshold 1 to threshold 2, a fee of 7 per cent. of such distributions and

• in relation to distributions in excess of threshold 2, a fee of 10 per cent. of such distributions.

Thresholds 1 and 2 are equal to USD 50 million and USD 75 million respectively, such amounts to increase by a minimum amount of any future increase in the Parent Company's share capital and accrete by 6 per cent per annum starting 1 January 2016 and 1 January 2017 (or such extended dates as the Parent Company and the Manager may agree in the event of any future increase in the Parent Company's share capital), respectively, calculated on a daily basis. The accretion of threshold 1 will cease when threshold 2 is achieved.

The performance fee under the Third Management Agreement is payable in cash (or in the case of a distribution that is a distribution in specie, payable by the transfer to the Manager of the appropriate proportion of the financial instrument that is the subject of the distribution), simultaneously with the distributions to which they relate.

The Third Management Agreement expires on 31 December 2016, with two automatic extensions of twelve months each, as follows:

• if by 31 December 2016, distributions of at least USD 42.4 million have been made (being 80 per cent. of USD 50 million multiplied by 1.06), the Third Management Agreement shall continue until 31 December 2017 at which point (and subject to the bullet point below), the appointment of the Manager shall expire automatically; and

• if by 31 December 2017, distributions of at least USD 63.6 million have been made (being 80 per cent. of USD 75 million multiplied by 1.06), the Third Management Agreement shall continue until 31 December 2018 at which point, the appointment of the Manager shall expire automatically.

The amounts referred to above increase by a minimum amount of any future increase in the Parent Company's share capital, in which event the dates could also be extended with agreement of each of the Parent Company and the Manager.

The total management fee for the year ended 31 December 2013 is USD 2,500 thousand (31 December 2012: USD 3,109 thousand). No performance fee is applicable based on the results of 2013.

18. 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 entitled Dragon Capital Partners and ZAI to subscribe for such number of ordinary shares as is equal to 5% and 1%, respectively, of publicly issued shares from 1 June 2007 and terminating five years thereafter. The warrants are exercisable at the market price of the shares at the date of grant.

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

	Options granted to Mr. Van der Heijden	**Warrants granted to Dragon Capital Partners**		**Warrants granted to ZAI**	**Total**
Date granted	**16 May 2007**	**16 May 2007**	**29 November 2007**	**16 May 2007**	
Number of instruments	**100,000**	**5,200,000**	**1,831,505**	**1,040,000**	**8,171,505**
Vesting period	**1-5 years**	**Immediately**	**Immediately**	**Immediately**	
Expiry dates	**(1)**	**16 May 2012**	**29 November 2012**	**16 May 2012**	
Exercise price	**USD 2.00**	**USD 2.00**	**GBP 1.30**	**USD 2.00**	
Share-based compensation	3	-	-	-	3

(USD thousand) during 2012

As at 31 December 2013 all warrants and options expired without being exercised.

Share-based payment expense recognised for the years ended 31 December are as follows:

(in thousands of USD)	**2013**	2012
Share options granted in 2007:		
Share options (compensation expense)	**-**	3
Total share-based payments	**-**	3

19. Administrative expenses

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Professional services	**1,125**	**809**	2,038	1,679
Advertising	**250**	**79**	285	36
Directors' fees	**242**	**242**	244	244
Audit fees	**163**	**142**	150	128
Wages and salaries	**77**	**-**	71	-
Bank charges	**58**	**8**	31	7
Insurance	**18**	**18**	21	21
Travel expenses	**58**	**59**	12	12
Share-based compensation	**-**	**-**	3	3
Other	**303**	**28**	83	10
Total administrative expenses	**2,294**	**1,385**	2,938	2,140

20. Net finance income/(cost)

Net finance (cost)/income for the years ended 31 December is as follows:

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Interest income on inter-Group loans	**-**	**16,674**	-	16,293
Interest income	**82**	**58**	10	56
Dividends	**-**	**5,254**	-	2,011
Impairment loss on loans receivable (note 11)	**-**	**(37,812)**	-	(19,263)
Unrealised currency exchange gain	**43**	**33**	42	15
Interest expense	**(69)**	**-**	-	-
Net financial income/(cost)	**56**	**(15,793)**	52	(888)

21. Contingencies

(a) Litigation

As at 31 December 2012 the land plot leased by Hindale Ltd. relating to Avenue Shopping Mall project on Komarova Avenue, Kyiv, had not been cleared of garages and there was a law suit relating to this project to which Promtek (a subsidiary of Hindale Ltd.) is an involved party. This law suit and difficulties in obtaining relevant permits may further delay the start of construction works on the land plot. The settlements are recognised through profit or loss in other income.

On 8 July 2013, in connection with a series of lawsuits and arbitration hearings, the Parent Company, RRE and Arricano signed a settlement deed according to which RRE paid the Parent Company USD 1,200 thousand and paid USD 1,100 thousand to an escrow agent which was to be released to the Parent Company on the successful completion of Arricano's IPO. On 13 September 2013 USD 1,100 thousand was received by the Parent Company.

(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 characterised by numerous taxes and frequently changing legislation which may be applied retrospectively, open to wide interpretation and in some cases conflict with other legislative requirements. 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 empowered 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.

The Directors believe that the Group 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 the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these consolidated financial statements.

(c) Insurance

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

(d) Capital expenditure and other commitments

As at 31 December 2013 outstanding commitments (including in relation to the financing of construction of investment properties) amounted to USD 2,078 thousand (31 December 2012: USD 3,860 thousand).

22. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the Consolidated financial statements is based upon the net loss for the year ended 31 December 2013 attributable to the ordinary shareholders of the Parent Company of USD 33,814 thousand (2012: USD 13,771 thousand) and the weighted average number of ordinary shares outstanding . The calculation of basic earnings per share for the Parent Company financial statements is based upon the net loss incurred by the Parent Company for the year ended 31 December 2013 of USD 22,733 thousand (2012: USD 8,479 thousand) and the weighted average number of ordinary shares outstanding, calculated as follows for both Consolidated and Parent Company financial statements:

	2013	2012
(number of shares weighted during the period outstanding)		
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)**	(15,669,201)
Own shares buyback in 2011	**(8,355,000)**	(8,355,000)
Weighted average number of shares for the period	**109,361,515**	109,361,515

Diluted earnings per share

As at 31 December 2013 the warrants and options expired without being exercised.

23. 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 risks.

(a) Risk management policy

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

(b) Credit risk

When the Group enters into an arrangement exposing it to credit risk, it does so only on the basis of due diligence research and the reputation of the counterparty. As at 31 December 2013 the largest exposures relate to prepayments made under three land acquisition contracts totalling USD 45,086 thousand (31 December 2012: USD 57,200 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.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2013, USD 1,068 thousand or 42.21% of total trade and other receivables are due from a single customer (31 December 2012: USD 1,661 thousand or 48.12%).

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. As at the balance sheet date the Group had no such collective impairment provision.

(ii) Exposure to credit risk

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

(in thousands of USD)	**Consolidated 2013**	**Parent company 2013**	Consolidated 2012	Parent company 2012
Loans receivable	**-**	**134,250**	632	152,145
Trade and other receivables	**1,547**	**320**	2,949	1,456
Cash and cash equivalents	**24,767**	**22,053**	21,715	15,049
	26,314	**156,623**	25,296	168,650

Also the Group is exposed to the risk of non-execution of contractual obligations by the counterparties to land acquisition contracts. As at 31 December 2013 the net carrying value of land amounted to USD 45,086 thousand (31 December 2012: USD 57,200 thousand).

(c) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including interest payments as of 31 December 2013:

(in thousands of USD)	Carrying amount	Contractual cash flows Total	Within one year	2-5 years	More than 5 years
Finance lease liabilities	**366**	**1,458**	**94**	**315**	**1,049**
Trade and other payables	**10,051**	**10,051**	**10,051**	**-**	**-**
	10,417	**11,509**	**10,145**	**315**	**1,049**

The following are the contractual maturities of financial liabilities, including interest payments as of 31 December 2012:

(in thousands of USD)	Carrying amount	Contractual cash flows Total	Within one year	2-5 years	More than 5 years
Finance lease liabilities	438	1,603	141	316	1,146
Trade and other payables	5,141	5,141	5,141	-	-
	5,579	6,744	5,282	316	1,146

(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). The Directors do 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 the Directors use their judgment to decide whether they believe that a fixed or variable rate would be more favourable over the expected period until maturity.

As at 31 December 2013 and 2012 all financial assets and liabilities had fixed interest rates. The Group does not account for fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates as at 31 December 2013 would not affect profit or loss.

(e) Foreign currency risk

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

	2013			2012		
(in thousands of USD)	**EUR**	**GBP**	**UAH**	EUR	GBP	UAH
Current assets						
Cash and cash equivalent	**576**	**1**	**2,181**	662	1	886
Trade and other receivables	**-**	**-**	**249**	26	-	565
Non-current liabilities						
Finance lease liabilities	**-**	**-**	**(331)**	-	-	(367)
Current liabilities						
Trade and other payables	**(37)**	**(10)**	**(45)**	(41)	(9)	(404)

Current portion of finance lease liabilities	**-**	**-**	**(35)**	-	-	(71)
Net long (short) position	**539**	**(9)**	**2,019**	647	(8)	609

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

Currency	**2013**	2012
EUR	**1.3814**	1.3183
GBP	**1.6511**	1.6137
UAH	**0.1192**	0.1251

As at 31 December 2013 a 10 per cent weakening of the US dollar against the UAH would have decreased post-tax loss and increased equity by USD 160 thousand (2012: increased USD 48 thousand).

As at 31 December 2013 a 10 per cent weakening of the US dollar against the GBP would have increased post-tax loss and decreased equity by USD 1 thousand (2012: by USD 1 thousand).

As at 31 December 2013 a 10 per cent weakening of the US dollar against the EUR would have decreased post-tax loss and increased equity by USD 44 thousand (2012: USD 51 thousand).

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

A 10 per cent strengthening in these exchange rates would have had an equal and opposite effect.

(f) Fair values

The Directors believe that the carrying values of the Group's financial assets and liabilities approximate the fair values as at 31 December 2013 and 31 December 2012 because of their short term nature, except for loans to Group companies in the Parent Company financial statements. The fair value of the loans to Group companies with carrying amount of USD 134,250 thousand is USD 113,662 thousand and categorised as Level 3 in the fair value hierarchy as at 31 December 2013. As at 31 December 2012 the fair value of loans to Group companies with carrying amount of USD 152,145 thousand is USD 142,207 thousand.

The estimation of fair value was made using a net present value calculation based on certain assumptions, which represent key unobservable inputs, the most important of which as at 31 December 2013 were as follows:

- discount rates from 12% to 20.4%
- future cash flows arising from development of the Group’s investment projects that are financed by the loans provided by the Parent Company.

As at 31 December 2012 the respective assumptions, which represent key unobservable inputs for determination of fair value, were as follows:

- discount rates from 10% to 12%
- future cash flows arising from development of the Group’s investment projects that are financed by the loans provided by the Parent Company.

The fair value of finance lease liabilities is estimated to approximate its carrying value because the discount rates used in the calculation of value are consistent with current market borrowing rates for similar instruments at the year end.

(g) Capital management

The Group has no formal policy for capital management but the Directors seek 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.

From time to time the Parent Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy decisions are made on a specific transaction basis by the Board within the limits approved by the Parent company's shareholders. The Parent Company 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.

24. Related party transactions

(a) Transactions with management and close family members

(i) Directors' remuneration

Directors' compensation included in the statement of comprehensive income for the years ended 31 December is as follows:

(in thousands of USD)	**2013**	2012
Directors' fees	**242**	244
Share-based payment expense (options granted)	**-**	3
Reimbursement of travel expense	**58**	12
Total management remuneration	**300**	259

(ii) Key management personnel and director transactions

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

	2013		2012	
	Number of shares	**Ownership, %**	Number of shares	Ownership, %
Aloysius Johannes Van der Heijden	**200,000**	**0.18**	200,000	0.18
Dragon Capital Group (with Tomas Fiala as principal shareholder and managing director)	**18,792,314**	**17.18**	16,085,227	14.71
	18,992,314	**17.36**	16,285,227	14.89

Mr. Tomas Fiala, one of the Parent Company's directors, is the principal shareholder and managing director of Dragon Capital Group which acquired 6,831,500 shares (6.25%) of the Parent Company during the first (June 2007) and second (November 2007) share issues. Also Mr. Tomas Fiala is a director in Dragon Capital Partners which received 1,698,416 (1.55%) 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.

Through a series of market purchases in 2011 (totalling 1,274,153 ordinary shares) and 2012 (totalling 6,281,158 ordinary shares) the holding of Dragon Capital Group in the Parent Company has increased to 16,085,227 ordinary shares or 14.71% of the Parent Company's issued shares as at 31 December 2012.

In February 2013 Dragon Capital Group made additional market purchases of 2,707,087 Parent Company shares, which resulted in a total shareholding of 18,792,314 ordinary shares, or 17.18% of the Parent Company's issued share capital.

(b) Transactions with other related parties

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

(in thousands of USD)	**2013**		2012	
	Transactions	**Balance outstanding**	Transactions	Balance outstanding
Management fee for project management to be paid to	**190**	**15**	59	8
Registered office rental expenses	**32**	**-**	35	-
	222	**15**	94	8

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

The total management fee for the year ended 31 December 2013 is USD 2,500 thousand (31 December 2012: USD 3,109 thousand). No performance fee is applicable based on the results of 2013 and 2012 as described in note 17.

25. Events subsequent to the reporting date

Subsequent to the reporting date, the regional parliament in the Autonomous Republic of Crimea declared its independence from Ukraine and signed an agreement with the Russian Federation outlining the Republic of Crimea's intention to join the Russian Federation. The Ukrainian state authorities and authorities of other leading countries do not recognise these declarations and agreements as they believe they are in violation of the Ukrainian constitution and international law.

However, as a result of these events and the Crimean parliament no longer recognising the authority of the Ukrainian national government and the Ukrainian authorities are not currently able to enforce Ukrainian laws on the territory of the Autonomous Republic of Crimea.

In addition there are numerous places in the Luhansk, Donetsk regions and other regions in the South East of Ukraine where there is unrest which has destabilised the general situation in Ukraine.

As stated in note 1(b), it is not clear what effect these developments may have on the Group’s activities. The Group does not have any properties in those regions except for the trade centre owned by Arricano situated in Simferopol, capital of Crimean Republic. The carrying value of the respective trade centre in Arricano’s financial statements as at 31 December 2013 amounted to USD 40,000 thousand.

On 17 February 2014 an Extraordinary Meeting of Shareholders approved a revised Investing Policy as defined by the AIM Rules for Companies. Under this revised policy the Board will seek to realise the Group’s properties in an orderly manner, such realisations to be effected at such times, on such terms and in such manner as the Board (in its absolute discretion) may determine. The full text of the Investing Policy can be found on the Parent Company’s website http://dragon-upd.com/investor-information

26. Shareholders holding greater than 5% of issued share capital

Holders of more than 5% of the issued share capital as at 31 December are as follows:

	2013		2012	
	Number of shares	**Ownership, %**	Number of shares	Ownership, %
Euroclear Nominees Limited	**32,625,356**	**29.83**	8,823,387	8.07
Goldman Sachs Securities (Nominees) Limited	**16,959,700**	**15.51**	16,959,700	15.51

BNY Mellon Nominees Limited	**12,656,700**	**11.57**	12,656,700	11.57
Morstan Nominees Limited	**10,935,800**	**10.00**	14,874,400	13.60
DRGN Limited	**1**	**0.00**	14,220,561	13.00
	73,177,557	**66.91**	67,534,748	61.75

Report of the Independent Auditors, KPMG Audit LLC, to the members of Dragon-Ukrainian Properties & Development PLC

We have audited the financial statements of Dragon-Ukrainian Properties & Development PLC for the year ended 31 December 2013 which comprise the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Cash Flows and the Group and Parent Company Statements Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Emphasis of matter

We draw attention to Note 1(b) to the consolidated and Parent Company financial statements, which describes the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 1(b) could adversely affect the Group's and Parent Company's results and financial position in a manner not currently determinable.

We also draw attention to Note 2(d) to these financial statements, which refers to significant areas of estimation uncertainty and critical judgments in applying accounting policies. Actual results could differ from the estimates made and there could be significant adjustment in the next financial year.

Our opinion is not qualified in respect of these matters.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept by the Parent Company and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company's Statement of Financial Position and Statement of Comprehensive Income are not in agreement with the books of account and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

30 May 2014