

Regulatory Announcement

[Go to market news section](#)



Company	Ukrproduct Group Ltd
TIDM	UKR
Headline	Interim Results
Released	07:00 15-Sep-05
Number	2891R

15 September 2005

Ukrproduct Group Ltd Interim results for six months ended 30 June 2005

Ukrproduct Group is a leading Ukraine-based producer and distributor of branded dairy foods.

Combined* results (H12004 in brackets):

- Net Sales up 57% to £17.3m (£11m)
- Gross profit up 70% to £2.9m (£1.7m)
- EBITDA up 56% to £1.6m (£1m)
- Net profit up 78% to £1.16m (£0.65m)
- Basic earnings per share**: 2.8p (2.1p)
- Proposed first interim dividend of 0.36p per share

Operating highlights

- Continued growth in core processed cheese and packaged butter segments.
- Strengthening of market leadership in core segments.
- Further preparation to enter the hard cheese segment.
- Redemption of bank debt to secure cheaper credit facilities.
- Upgraded production facilities and improved the logistical and trading capabilities.
- Successful IPO on AIM on 11 Feb 2005:
 - First Ukrainian trading group to be listed on London Stock Exchange
 - Offer oversubscribed, raising £6 million gross
 - Shares have consistently outperformed the placing price

Sergey Evlanchik, CEO of Ukrproduct Group, commented:

“In the first half of the year, I am pleased to report that we have made progress on all fronts with good growth in revenues, improved margins and, consequently, profits are ahead strongly.

“We are well positioned to take advantage of the continuing economic growth of Ukraine. Dairy-based foods are directly benefiting from rising consumer affluence and the shift of preferences towards packaged quality products. In addition, we are watching adjacent segments of the market closely, and in particular hard (cheddar) cheese, in order to be able to react quickly to opportunities as they arise.”

For further information:

Ukrproduct Group +38 044 502 8014
Sergey Evlanchik, CEO, and Dmitry Dragun, CFO

Financial Dynamics +44 20 7831 3113
Ben Foster/ Charles Watenphul

**The combined figures refer to the aggregated results of the Enlarged Group, as defined in the non-statutory financial statements for the period ended 31 December 2004, for the six months ended 30 June 2005 and are fully comparable with the financial results for the first half of 2004. The Directors believe that the combined method best illustrates like for like performance. The combined figures are also supplemented by the consolidated results which show the results since Ukrproduct Group Ltd ("the Company") acquired the "Operating Group" on 11 February 2005 using purchase accounting. This consolidated method will form the basis for the statutory financial statements for the year ended 31 December 2005 (Note 1).*

*** Earnings per share excluding non-recurring items: release of "negative goodwill", income from exchange differences and other non-operating expenses*

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

It gives us great pleasure to announce our first set of interim results since becoming a public company. This is Ukrproduct's first six month trading period – which includes the initial public offering (IPO) of Ukrproduct Group on 11 February 2005. The flotation was a momentous step in the continuation of our strategy to become the leading branded dairy-based FMCG business in Ukraine.

Trading Results

Our results for the six month period show increases in both sales and operating profits (EBITDA) on a comparable, like for like basis, by 57% and 56% respectively. Net profits on the same basis grew more substantially by 78%, helped by lower interest charges. The growth in margins was also material.

On the basis of the combined accounts for the six months to 30 June 2005 – which we believe provide the most appropriate comparison with the last year's corresponding six month period – basic earnings per share increased by 33% from 2.1p to 2.8p.

The Board proposes to pay a 0.36 pence interim dividend to those shareholders on the register on 23 September 2005. This dividend will be paid on 28 October 2005.

Operating Review

The operating environment of the Group remained buoyant and dynamic. As in the last year, the processed cheese and packaged butter segments in Ukraine once again experienced significant volume growth. Consumer demand remained strong in the first half of the year and trading so far in the second half points to the continuation of this trend.

Using the funds raised at flotation, the Group significantly strengthened its distribution network, conducted the forward storage in full volume (thereby securing an uninterrupted supply of raw materials for production in winter months), and completed the new processed cheese workshop at Molochnik, which resulted in capacity increasing to 2,000 tonnes of processed cheese per month.

We are continuing to invest in the development of new products, with the first innovative products of this year, vacuum-packed processed cheeses are due to arrive on the shelves of the country's retail outlets shortly. We have broadened the product range to include several new taste varieties including paprika, crab and bacon.

Initial Public Offering

On February 11, 2005 the Group successfully listed in section AIM of London Stock Exchange. The number of the shares offered to the public was 11,214,953, which represented 27.2% of the enlarged issued share capital of the Company (41,214,953 shares). The Company's market capitalisation based on the placing price of 53.5p per share was approximately £22 million when the dealings commenced. The Company raised £6 million gross, with flotation expenses of roughly £0.8m. On the date of the IPO, Ukrproduct Group Limited completed the acquisition of 100% of the share capital of CJSC Ukrproduct Group (Ukraine), Dairy Trading Corporation (BVI) and LinkStar Limited (Cyprus).

Strategic update

The Group intends to remain the leader in the two core segments of processed cheese and packaged butter, by increasing its presence domestically and facilitating its corporate marketing and promotional activities in larger cities throughout the country. The Group is also active in developing its logistical arm (Ukrproduct Logistics – a subsidiary of the Group's main operating company in Ukraine), in order to serve its parent company and also to provide the services to third parties. In addition, the Group plans to enter the lucrative hard (cheddar) cheese segment in 2006-2007.

Outlook

The Board believes that the Group remains well positioned to take advantage of the continuing economic growth of Ukraine. Dairy-based foods are directly benefiting from rising consumer affluence and the shift of preferences towards packaged quality products. We are watching adjacent segments of the market closely and in particular hard (cheddar) cheese in order to be able to react quickly to opportunities as they arise.

Jack Rowell
Chairman

Sergey Evlanchik
CEO

Combined financial results for the Group:

- Net Sales up 57% to £17.3m (£11m)
- Cost of sales up 55% to £14.4m (£9.3m)
- Gross profit up 69% to £2.9m (£1.7m)
- Gross margin increased to 16.7% (15.5%)
- Administrative expenses increased by 140% to £0.85m (£0.35). This increase was mainly due to the new expense category related to the post-IPO public nature of the Company, as well as increase in the wages category, due to employee number and average pay increase.
- Selling expenses up 70% to £0.7m (£0.4m). The main factor influencing this increase was staff salaries.
- EBITDA up 56% to £1.6m (£1m)
- EBIT up 58% to £1.36m (£0.86m)
- Profit before tax up 73% to £1.3m (£0.75m)
- Profit after tax up 78% to £1.16m (£0.65m)
- Earnings per share up 33% to 2.8p (2.1p)

Combined segmental analysis:

	Sales H1 2005 £ 000	Share in Sales H1 2005	Share in Sales H1 2004	Gross Profit H1 2005 £ 000	Gross Margin H1 2005	Gross Margin H1 2004
Cheese	7,309	42%	40%	1,617	22.1%	20.4%
Butter	5,081	29%	37%	759	14.9%	10.9%
Milk Powder	3,611	21%	16%	490	13.6%	19.5%
Services	201	1%	-	9	4.4%	4.6%
Other	1,107	7%	7%	14	1.3%	2.7%
Total	17,309	100%	100%	2,889		

BALANCE SHEET

£ '000	30/06/2005 Consolidated	30/06/2005 Combined	31/12/2004 Combined
--------	----------------------------	------------------------	------------------------

	Unaudited	Unaudited	Audited
Non-Current Assets			
Property, Plant and equipment	6,945	6,945	5,023
Intangible assets	9	9	3
Investments	92	92	83
Deferred tax	41	41	36
<i>Total non-current assets</i>	<i>7,087</i>	<i>7,087</i>	<i>5,145</i>
Current assets			
Cash and cash at bank	1,264	1,264	300
Inventories	4,370	4,370	2,328
Loans issued	727	727	212
Receivables and prepayments	3,481	3,481	2,029
<i>Total Current assets</i>	<i>9,843</i>	<i>9,843</i>	<i>4,869</i>
<i>Total assets</i>	<i>16,929</i>	<i>16,929</i>	<i>10,014</i>
Current Liabilities			
Bank loans and overdrafts	859	859	1,077
Trade and other payable	2,787	2,787	1,671
Current income tax liabilities	135	135	253
<i>Total Current Liabilities</i>	<i>3,781</i>	<i>3,781</i>	<i>3,002</i>
Non-Current Liabilities			
Long-term credits	44	44	221
Bonds	119	119	933
Promissory note	5	5	5
Deferred tax	758	758	703
<i>Total Non-Current Liabilities</i>	<i>926</i>	<i>926</i>	<i>1,862</i>
Minority interest	164	164	132
Capital and reserves			
Share capital	4,121	4,121	3,000
Merger reserve		-1,750	-1,866
Additional capital	4,109	6,287	2,020
Accumulated profit and other reserves	3,828	3,400	1,865
<i>Total shareholders' equity</i>	<i>12,058</i>	<i>12,058</i>	<i>5,018</i>
<i>Total liabilities and shareholders' equity</i>	<i>16,929</i>	<i>16,929</i>	<i>10,014</i>

INCOME STATEMENT

£ '000

	30/06/2005 Consolidated	30/06/2005 Combined	30/06/2004 Combined	31/12/2004 Combined
	Unaudited	Unaudited	Audited	Audited
Sales	15,389	17,309	11,026	27,115
Cost of Sales	-12,906	-14,421	-9,319	-22,698
Gross profit	2,483 16.1%	2,889 16.7%	1,706 15.5%	4,418 16.3%
Administrative expenses	-780	-850	-354	-1,045
Selling and distribution expenses	-597	-706	-415	-1,070
	1,106	1,333	937	2,303
Release of "negative goodwill" (Note 2)	2,368			
Income from exchange differences	367	105		

Other non-operating expenses	-65	-79	-72	-233
Profit before interest and taxation	3,776 24.5%	1,359 7.8%	865 7.8%	2,070 7.6%
Interest expense	-78 -0.5%	-95 -0.6%	-112 -1.0%	-305 -1.1%
Interest income	41	41	2	-7
Profit before taxation	3,739 24.3%	1,305 7.5%	755 6.8%	1,757 6.5%
Taxation	-149	-147	-110	-301
Profit after taxation	3,591 23.3%	1,158 6.7%	645 5.8%	1,456 5.4%
Minority interest	-6	-13	-7	-19
Profit attributable to ordinary shareholders	3,585 22.3%	1,144 6.6%	638 5.8%	1,437 5.3%
Earnings per share:				
- basic	2.2p	2.8p	2.1p	4.8p
- diluted	2.1p	2.7p	2.1p	4.8p

CASH FLOW STATEMENT

£ '000	1/01/2005 to 30/06/05 Consolidated	1/01/2005 to 30/06/05 Combined	1/01/2004 to 31/12/04 Combined
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
Net profit before taxation	3,739	1,305	1,757
Adjustments for:			
Release of negative goodwill	-2,368	0	0
Exchange difference	-367	-105	
Depreciation	260	308	516
Interest expense	78	95	305
Interest income	-41	-41	7
	1,302	1,562	2,586
"-" Increase in trade and other receivables	-1,071	-588	-71
"-" Increase in inventories	-1,704	-1,666	-872
"+" Increase in trade and other payables	1,176	868	-349
<u>Cash (used by)/generated from operations</u>	<u>-297</u>	<u>177</u>	<u>1,293</u>
Interest paid	-78	-95	-305
Interest received	41	41	
Income tax paid/(refunded)	-159	-179	-67
Net cash (used in)/generated by operating activities	-493	-57	922
Cash flows from investing activities			
Purchase of property, plant and equipment	-2,123	-2,234	-1,566
Purchase of investments	207	0	1
Proceeds from sale of property, plant and equipment	0	0	3
Proceeds from sale of investments	0	0	-7
Loans repaid (issued)	-297	-461	-207
Net cash used in investing activities	-2,213	-2,696	-1,776
Cash flows from financing activities			

Proceeds from issue of bonds and other non current loans	-833	-1,054	912
Proceeds from issue of shares	1,121	1,109	0
Proceeds from issue of additional capital	4,111	4,112	0
Distribution of profit	0	0	0
Net proceeds from issue of promissory notes	0	0	-20
Net proceeds from short term borrowing	-307	-321	147
Net cash generated by/(used in) financing activities	4,093	3,846	1,039
Effect of exchange rate changes and restatements on cash and cash equivalents	-122	-129	-17
Net increase/(decrease) in cash and cash equivalents	1,264	965	168
Cash and cash equivalents at the beginning of the year	0	300	132
Cash and cash equivalents at the end of the year	1,264	1,264	300

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Consolidated)

£ '000	Share capital	Additional capital and revaluation reserve	Retained earnings	Share-holders equity	Minority interest	Total equity
Balance at 1 January 2005						
Issue of shares	4,121	4,398		8,519	144	8,663
Fund-raising expenses		-286		-286		-286
Exclusion from Group						
Issued on acquisition of Operating Group						
Net profit for the period			3,585	3,585	6	3,591
Exchange differences on translation to the presentation currency		-3	243	240	14	254
Balance at 30 June 2005	4,121	4,109	3,828	12,058	164	12,222

NOTES

1. Accounting Policy Statement and Basis of Preparation

The accounting policies used in preparation of the above statements are those expected to be adopted by the Company in preparing its annual financial results for the year ended 31 December 2005. The main difference in the basis of preparation of these results as compared to those produced previously is the method used to consolidate the results of the Group companies. The Group prepared its financial statements for the year ended 31 December 2004 using on the pooling of interests ("merger") method, to reflect the activities of the whole Operating group for the full year.

In practice such method is used to illustrate the “combined” results of a group of companies operating under common control and management, but formally not being linked by a common parent company.

However, since all the companies within the Operating Group became subsidiaries of Ukrproduct Group Ltd (the Company) on the date of its floatation on AIM, the Company will use the purchase method to consolidate its financial results starting from the date of the IPO. Since the Group was formally established on February 11 2005, the first half consolidated results for 2005 should be prepared from that day forth, thus resulting in exclusion of trading results for the period 01.01.05 – 11.02.05. Due to operational and presentational reasons, the consolidated results have been prepared for the 5 months ended June 30, 2005. However, in order to provide a more accurate and comparable information to the shareholders, in addition to the consolidated 5 month results, the management has decided to also prepare the combined accounts for 6 months ended June 30, 2005, which are comparable to the same period in the previous year. These combined results are referred to as “combined” results within this interim financial review.

2. Goodwill

The consolidation of a group of companies using the purchase method gives rise to goodwill, which is measured as the excess of the consideration paid over the net fair value of assets acquired by the acquirer (“goodwill”). In the case of Ukrproduct Group Ltd, such excess was negative, meaning that the Company purchased the assets of its subsidiaries at a price lower than the net fair value of those assets, thus giving rise to “negative goodwill”. The “negative goodwill” is a non-recurring item which has been released through the Income Statement. As can be noticed, the “negative goodwill” number which was treated as income in the Income Statement [2,368] is different from the number of the “negative goodwill” as calculated in Note 4 [2,792] for the purposes of the Balance Sheet. The difference is due to different treatment of the exchange rate of Ukrainian and British currencies, when calculating the Income Statement and the Balance Sheet. The Income Statement is calculated using the average exchange rate for the period, while the Balance Sheet is calculated using the exchange rate as at the end of the period.

3. Earnings per share

Basic earnings per share have been calculated by dividing the net profit attributable to ordinary shareholders excluding non-recurring items (release of “negative goodwill”, income from exchange differences and other non-operating expenses) by the weighted average number of shares in issue during the period.

	Consolidated Five months ended 30 June 2005	Combined Six months ended 30 June 2005	Combined Six months ended 30 June 2004	Combined Twelve months ended 31 December 2004
Net Profit attributable to ordinary shareholders, £	914,656	1,157,638	637,677	1,436,020
Weighted average number of ordinary shares	41,214,953	41,214,953	30,000,000	30,000,000
Basic earnings per share	2.2p	2.8p	2.1p	4.8p
Number of ordinary shares granted under warrants and option agreements	2,214,924	2,214,924	0	0
Fully diluted average number of ordinary shares	43,429,877	43,429,877	30,000,000	30,000,000

Fully diluted earnings per share	2.1p	2.7p	2.1p	4.8p
----------------------------------	------	------	------	------

4. Acquisition of CJSC Ukrproduct Group, Linkstar Limited and Dairy Trading Corporation Limited

With effect from 11 February 2005 the Company acquired a Group of Companies (previously referred to as the Operating Group) with business operations primarily in Ukraine.

The assets acquired are summarised in the following table:

	£' 000
Net assets	5,792
Fair value of assets acquired	5,792
Consideration	3,000
Goodwill	2,792

5. **Dividend:** On 29 June 2005, the Board recommended the first interim dividend of 0.36 pence per share to be paid to the shareholders on record as at 23 September 2005. The payment date is 28 October 2005.

END

Close

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.

©2005 London Stock Exchange plc. All rights reserved