

## Regulatory Announcement

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**Company** Ukrproduct Group Ltd  
**TIDM** UKR  
**Headline** Interim Results  
**Released** 07:00 19-Sep-06  
**Number** 1328J

### 19 September 2006

#### **Ukrproduct Group Ltd (“Ukrproduct Group”, “UPG” or the “Company”) Interim unaudited results for six months ended 30 June 2006**

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

Consolidated results (figures for the six months ended 30 June 2005 in brackets):

- Net Sales stable at £17.4m (£17.3m)
- Gross profit increased to £3.5m (£3.1m)
- Operating cash flow down 14% to £1.36m (£1.56m)
- Profit before tax down 46% to £0.65m (£1.2m)
- Profit after tax down 44% to £0.59m (£1.05m)
- Basic earnings per share down to 1.4p (2.5p)
- Interim dividend of 0.1p (0.35p)

*Note:* In 1H 2006, some of the transportation expenses were reclassified from Cost of Sales to Selling and Distribution Costs. The figures of 1H 2005 were also reclassified and are presented in the comparable format.

Iryna Yevets, CEO of Ukrproduct Group, commented:

“As highlighted in the statement made to the market on 27 June, the performance of the Group during the first six months of the year was impacted by Ukraine’s trade negotiations with Russia and associated substantial cost inflation. During the first half of the year, exports of hard cheese from Ukraine to Russia were severely restricted resulting in Ukrainian manufacturers reducing prices and releasing excess products on to the Ukrainian market. As a result, the Group suffered from the overall downward price pressure. Alongside this, the increase in cost inflation, in particular, the prices of gas and electricity also resulted in major increases in costs of freight services, utilities and rents. As a consequence of these difficult trading conditions during the first half of the year, the Company continues to expect pre-tax profits for the full year 2006 to be lower than in 2005.”

“Following the update on 27 June, the volumes and margins of packaged butter as well as the production of skimmed milk powder and export sales have been in line with expectations and we have continued to see a reduction in the excess stocks of hard cheese. Pricing pressure due to the restriction has also been reduced. The stabilisation of the political environment through the creation of a coalition government following the elections earlier this year has resulted in the return of consumer confidence. This has benefited UPG through the increase in consumption trends for our products. The construction of the hard cheese plant at Starkon remains on track with the intention that the plant becomes fully operational by the third quarter of 2007.”

“In view of the challenging trading in the first half and uncertain environment in the second half of the year, the Board has proposed an interim dividend of 0.1p. The dividend will be paid on 26 October 2006 to those shareholders on the register at the close of business on 6 October 2006.”

“Going forward we will continue to focus on driving sales and margin growth whilst improving the operational efficiency of the Company. We have reviewed the cost structure of the Group and implemented a cost cutting programme where appropriate. Our core brands remain the cornerstone of the Company, and we will continue to position ourselves in the various segments that we operate in so that we are able to explore future opportunities within the Ukrainian dairy sector. From the information that is currently available, the Directors believe that the Group is holding its pre-eminent position in terms of market share. Accordingly, the directors believe that the Company will emerge successfully from the current challenging circumstances.”

For further information:

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Iryna Yevets, CEO, and Dmitry Dragun, CFO

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Ben Foster/ Charles Watenphul

Consolidated financial results of the Group (with 1H 2005 figures in brackets):

- Net Sales stable at £17.4m (£17.3m)
- Cost of sales down 2% to £13.9m (£14.2m).
- Gross profit up 12% to £3.5m (£3.1m)
- Gross margin increased to 20.1% (18.1%)
- Administrative expenses increased 53% to £1.34m (£0.88). This increase is mainly due to increase in wages, as well as the new administrative expenses of the production plants acquired in the 2nd half of 2005 (Letichev and Zhmerinka).
- Selling expenses up 37% to £1.27m (£0.9m). The main factor influencing this increase was the increased costs of transportation and wages.
- Operating cash flow down 14% to £1.36m (£1.56m)
- EBIT down 42% to £0.72m (£1.25m). Significant depreciation difference arose between the comparable periods due to the large capital expenditure in FY2005 and acquisition of production facilities during the 2nd half of 2005.
- Profit before tax down 46% to £0.65m (£1.2m)
- Profit after tax down 44% to £0.59m (£1.05m)
- Basic earnings per share down to 1.4p (2.5p)

**CONSOLIDATED BALANCE SHEET**  
**As at 30 June 2006 and 30 June 2005**

	<b>30/06/2006</b>	<b>30/06/2005</b>
	<b><u>Unaudited</u></b>	<b><u>Unaudited</u></b>
	<b>£ '000</b>	<b>£ '000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment (PPE)	9,055	6,945
Intangible assets	1,502	9
Investments	92	92
Deferred tax assets	28	41
<b>Total non-current assets</b>	<b>10,677</b>	<b>7,087</b>
<b>Current assets</b>		
Inventories	2,649	4,370

Trade and other receivables	3,662	3,481
Other financial assets	132	727
Cash and cash equivalents	370	1,264
<b>Total current assets</b>	<b>6,813</b>	<b>9,842</b>
<b>Total assets</b>	<b>17,490</b>	<b>16,929</b>
<b>Capital and reserves attributable to equity holders of the company</b>		
Share capital	4,121	4,121
Other reserves	4,757	4,642
Retained earnings	3,969	3,295
	<b>12,847</b>	<b>12,058</b>
<b>Minority interest</b>	<b>172</b>	<b>164</b>
<b>Total equity</b>	<b>13,019</b>	<b>12,222</b>
<b>Liabilities</b>		
<b>Non-current Liabilities</b>		
Long-term credits	143	44
Bonds	0	119
Promissory notes	0	5
Deferred tax liability	730	758
<b>Total non-current liabilities</b>	<b>873</b>	<b>926</b>
<b>Current liabilities</b>		
Bank loans and overdraft	1,098	859
Trade and other payables	2,351	2,787
Current portion of long term liabilities	106	0
Current tax liabilities	43	135
<b>Total current liabilities</b>	<b>3,598</b>	<b>3,781</b>
<b>Total equity and liabilities</b>	<b>17,490</b>	<b>16,929</b>

### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006 and 30 June 2005

	<u>30/06/2006</u> <u>Unaudited</u> £ '000	<u>30/06/2005</u> <u>Unaudited</u> £ '000
<b>Revenue</b>	<b>17,395</b>	<b>17,309</b>
Cost of sales	(13,891)	(14,170)
<b>Gross profit</b>	<b>3,504</b>	<b>3,139</b>
Administrative expenses	(1,342)	(875)
Selling and distribution costs	(1,275)	(930)
Other operating income/(expenses)	(188)	(80)
<b>Profit from operations</b>	<b>699</b>	<b>1,254</b>

Income / loss from exchange rate differences	25	0
Finance income	0	41
Finance costs	(79)	(95)
<b>Profit before tax</b>	<b>645</b>	<b>1,200</b>
Tax expense	(57)	(147)
<b>Profit for the year</b>	<b>588</b>	<b>1,053</b>
<b>Attributable to:</b>		
Equity holders of the parent	590	1,040
Minority interest	(2)	13
<b>Earnings per share</b>		
- Basic (pence)	1.4	2.5
- Diluted (pence)	1.4	2.4

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the six months ended 30 June 2006 and 30 June 2005**

	<b>1/01/2006 to 30/06/06 <u>Unaudited</u> £ '000</b>	<b>1/01/2005 to 30/06/05 <u>Unaudited</u> £ '000</b>
<b>Operating activities</b>		
Net profit from ordinary activities	645	1,200
Adjustments for:		
Foreign exchange losses	(25)	0
Depreciation	663	308
Interest expense	79	95
Interest income	0	(41)
<b>Operating profit before changes in working capital and provisions</b>	<b>1,362</b>	<b>1,562</b>
"-" Increase in trade and other receivables	742	(588)
"-" Increase in inventories	1,660	(1,666)
"+" Increase in trade and other payables	188	868
<b>Cash generated from operations</b>	<b>3,952</b>	<b>176</b>
Interest paid	(79)	(95)
Interest received	0	41
Income taxes paid/(refunded)	(185)	(179)
<b>Net cash flows from operating activities</b>	<b>3,688</b>	<b>(57)</b>

<b>Investing activities</b>		
Purchases of PPE	(1,760)	(2,234)
<b>Net cash used in investing activities</b>	<b>(1,760)</b>	<b>(2,234)</b>
<b>Financing activities</b>		
Issue of bonds and loans received	43	(1,054)
Issue of ordinary shares	0	5,221
Dividends paid	(206)	0
Net proceeds from short term borrowings	(1,809)	(321)
Loans repaid (issued)	3	(461)
<b>Net cash generated by/(used in) financing activities</b>	<b>(1,969)</b>	<b>3,385</b>
Effect of exchange rate changes and restatements on cash and cash equivalents	(42)	(130)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(83)</b>	<b>964</b>
Cash and cash equivalents at the beginning of the period	453	300
<b>Cash and cash equivalents at the end of the period</b>	<b>370</b>	<b>1,264</b>

## NOTES

### 1. Accounting Policy Statement and Basis of Preparation

The accounting policies used in preparation of the above statements are those used in preparing the annual financial results for the year ended 31 December 2005 and are expected to remain the same for the Company in preparing its annual financial results for the year ended 31 December 2006.

### 2. Segmental analysis

	Sales H1 2006 £ 000	Share in Sales H1 2006	Share in Sales H1 2005	Gross Profit H1 2006 £ 000	Gross Margin H1 2006	Gross Margin H1 2005
Cheese	6,927	40%	42%	1,487	21.5%	23.8%
Butter	5,431	31%	29%	1,332	24.5%	14.7%
Milk Powders	3,280	19%	21%	452	13.8%	14.5%
Services	459	3%	1%	99	21.5%	21.7%
Other	1,298	7%	7%	134	10.4%	7.3%
<b>Total</b>	<b>17,395</b>	<b>100%</b>	<b>100%</b>	<b>3,504</b>	<b>20.1%</b>	<b>18.1%</b>

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### 3. Earnings per share

Basic earnings per share have been calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of shares in issue during the period.

	<b>Consolidated</b> Six months ended 30 June 2006	<b>Consolidated</b> Six months ended 30 June 2005
Net Profit attributable to ordinary shareholders (£'000)	590	1,040
Weighted average number of ordinary shares	41,214,953	41,214,953

Basic earnings per share (pence)	1.43	2.52
Number of ordinary shares granted under warrants and option agreements	2,214,924	2,214,924
Fully diluted average number of ordinary shares	43,429,877	43,429,877
Fully diluted earnings per share (pence)	1.36	2.39

#### 4. Dividend

The Board proposes an interim dividend of 0.1p per ordinary share (0.35p in H1 2005). The dividend will be paid on 26 October 2006 to those shareholders on the register at the close of business on 6 October 2006.

END

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