Regulatory Announcement

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Company	Ukrproduct Group Ltd
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UKRPRODUCT GROUP LTD ('UKRPRODUCT' OR 'UKRPRODUCT GROUP')

Preliminary Results for the year ended 31 December 2007

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

Highlights (2006 – in brackets)

- Sales: £48.1 million (£35.1 million)
- EBITDA: £5.5 million (£2.8 million)
- PBT: £3.7 million (£1.2 million)
- Net profit: £3.3 million (£1.1 million)
- Gross margin: 21.7% (20.7%)
- Basic earnings per share: 7.8p (2.6p)
- Proposed final dividend of 0.82p per share giving 1.4p for the full year (0.61p)
- Business fully recovered in core product segments after the crisis in 2006
- Capacity utilisation improved, distribution network rationalised, milk collection system strengthened

Numbers rounded up. For the complete numbers please refer to the Financial Statements.

Commenting on the 2007 results, Jack Rowell, Chairman of Ukrproduct Group Ltd., said:

"In the past year, the Group's operating strengths, agile decision-making by the executive team and favourable business environment have delivered the best performance on record to the shareholders. I am pleased to observe the continuing flexibility of the business and the strength of the Group's product portfolio. In a dynamically evolving environment of dairy sector of Ukraine such a combination is a powerful portent for the soundness and vitality of the underlying business model."

For further information:

Ukrproduct Group Sergey Evlanchik, CEO, and Dmitry Dragun, CFO	**23 April 2008** +44 (0)778 646 6639 **Thereafter** +38 044 502 8014
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CHAIRMAN'S STATEMENT

Results

Against the background of robust domestic demand and the favourable situation on world markets for skimmed milk powder, the Group reported sales of £48.1 million, an increase of 37% on the previous year. EBITDA, calculated as profit from operations adding back depreciation and amortisation, grew from £2.8 million in 2006 to £5.5 million, an increase of over 96%. An increase in gross margins from 20.7% to 21.7% contributed to a three-fold increase in profit before tax from £1.2 million to £3.7 million.

For the domestic business in Ukraine, 2007 was a period of full recovery in consumer confidence which had been hit hard by the Russian embargo on the import of Ukrainian dairy products in early 2006. It is now obvious that the Group's strategy of refusing to buckle under the huge price pressure in 2006 paid well in the current year as sales recovered and margins improved. The development of the product portfolio, while relatively minor, has helped to secure the broad presence and recognition of products on the shelves of the fast-developing retailers. For the international business, the past year was exceptional. Nearly all dairy products, skimmed milk powder in particular, experienced a surge in demand with prices adjusted upwards, accordingly. The Group managed to capitalise on the opportunities presented with the timely installation of the new skimmed milk dryer in December 2006; from January 2007 onwards the new equipment operated at a near full capacity and produced skimmed milk of excellent grade. As a result, both volumes and prices of skimmed milk powder have been remarkably robust.

Dividends

It has been the Group's dividend policy to reward shareholders in line with the trading performance of the business and financial results whilst maintaining the cash position of the business and supporting the balance between reinvesting profits and dividend distributions. In view of the recovery in the Group's core business in Ukraine and strong financials delivered by the business, the Board is recommending a final dividend payment of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2008 to the shareholders on record as at 6 June 2008.

Strategy

2007 validated one of the central business principles of Ukrproduct Group, that of the profitable retention of the Group's position in its core business segments. As before, these are soft (processed) cheese, butter, skimmed milk powder and the most recent addition of hard cheese. While maintaining the market position in branded soft cheese, the Group also demonstrated an ability to continue to improve margins in the butter segment.

In production, our strategy remains focused on manufacturing excellence with only the newest and most advanced equipment installed in our plants and only the most up-to-date technical expertise contracted for the industrial work. A significant amount of capex, some £11 million in total, has been dedicated over the last three years to upgrading our plants and supporting the Group's competitive position in Ukraine. This capex has resulted in our production facilities being one of our best assets, serving as the Group's manufacturing platform and creating a significant barrier to entry to potential competitors.

Brands, as we always believed, are our most treasured business resource. They withstood a number of business challenges, including competitive pressure, portfolio adjustment, price repositioning and changing habits of consumers. Today, as ever, we are convinced that our brands, led by "Nash Molochnik" (Our Dairyman), are some of the most recognisable and profitable in Ukraine's dairy sector. We are careful in preserving their integrity by conducting targeted in-store merchandising campaigns and adhering to a policy aimed at price and quality differentiation.

Our distribution network, always the backbone of the business, has been strengthened and streamlined. The development of the modern retail formats in Ukraine has seen the role of the Group’s distribution network defined with greater clarity. We envisage that the central warehouse facilities of the supermarkets will play a bigger role in delivering the goods to customers in the future however the time of the full-cycle service delivery has not yet come. In this transitional period of three to five years, we are keen to support the customers, both at retail and distribution level, by providing all necessary logistical support for the timely delivery of our products and associated services.

Our export operation has seen substantial progress in the last year. Buoyed by nearly a two-fold increase in skimmed milk powder capacity and by significant quality improvement, Starkon Plant has enjoyed a close-to-capacity utilisation in 2007. While the situation on the world markets in 2007 has clearly been exceptional, we believe that with the new equipment the opportunities to capitalise on the favourable prices will be a material benefit for the Group in the future.

In early 2008, Ukraine’s long-awaited accession to the WTO finally happened. As this report goes to print, the details of Ukraine’s commitments are not yet known in detail, neither is the potential impact of the accession to Ukrproduct’s business. We expect, however, that the new opportunities for our business will be significant, in particular, with respect to the opening of the hitherto closed export markets for skimmed milk powder. We intend to sustain the growth in the future by growing organically via construction of the new modern facilities as high production and quality standards become vital for the Ukrainian dairy producers to be able to comply with the WTO requirements. In one potential area of growth in Ukraine, acquisitions, we will continue to screen the appropriate quality targets as bolt-on additions to the Group’s core businesses.

Outlook

Looking forward, the Board sees a number of opportunities to expand and improve the business. Firstly, we are encouraged to see the continuing shift of consumer demand in Ukraine towards quality products at a reasonable price. This is a trend which the Group has used to its advantage in the past and shall continue to employ in the future. The Group’s brand portfolio is diversified yet focused enough to withstand the competitive pressures. Improving recognition and sales of particular growth products, such as smoked sausage cheese, is the best way forward for leveraging our industrial and commercial advantages. Secondly, we are convinced that consolidation in the dairy industry of Ukraine is inevitable and is slowly happening. While it is difficult to assess a direct financial impact of this process on the Group, we nevertheless believe that the competitors are weakening and will gradually lose the ability to produce and distribute dairy products. This bodes well, although indirectly, for the Group’s trading performance. In addition, barriers to entry into a dairy business in Ukraine of a commercially meaningful scale are very high and we believe that this barrier delivers a sizeable benefit to the Group. Finally, our manufacturing base is now working towards providing a major competitive advantage for the Group. At both of the Group’s locations at Zhytomir and Starkon, we now have centres of flexible production capable of delivering quality products at short notice. This manufacturing ability is increasingly important in Ukraine as seasonal factors and shifts in consumer preferences demand greater flexibility from the leading dairy producers.

It was a year of excellent achievements. I congratulate everyone at the Group with the success and look forward to a new exciting year.

Jack Rowell
Chairman

22 April 2008

CHIEF EXECUTIVE’S STATEMENT

Background

The year under review was the first year following the crisis in the dairy industry of Ukraine inflicted by the Russian import ban in 2006. Without a doubt, 2007 was a period of full-scale recovery for Ukrproduct Group. Helped by the encouraging trends in skimmed milk powder worldwide, the Group jump-started a gradual recovery of the domestic volumes in processed cheese as well. Butter volumes held up very well throughout the year, just as the management team expected at the outset. The margins on this product have improved, reflecting the continuous effort by management to leverage the brands in the portfolio. Hard cheese, our new flagship product, started well and is now in production. We now have the requisite experience and inventories to carry on an introduction of the product to the shelves of supermarkets in Ukraine.

Operating review

The year started well with the rapid and significant increase in the export prices for skimmed milk powder (SMP) on the world markets. The Group's increased SMP capacity allowed for an immediate intake of new orders which resulted in the capacity utilisation rate being close to 100% in April-June 2007. Throughout this period, the Group increased the supply of raw milk correspondingly to allow for greater quality and quantity of the manufactured skimmed milk. By mid 2007, the price increase in SMP prices subsided and the prices remained at the high level. In the second half of the year, there was a gradual reduction in demand with the accompanying drop in price. Overall for the year, an average selling price for a tonne of skimmed milk sold by the Group was some 83% higher than in the previous year.

Domestically, the sales of our main products, soft (processed) cheese and packaged butter, continued a steady recovery albeit at slightly different speeds. In soft cheese, the price-depressing effects in the aftermath of the Russian import embargo continued to hamper the revival of volumes although the price recovery went well. Competitive landscape in Ukraine remained chaotic and unpredictable to a large extent; a number of smaller and mid-tier players displayed the signs of financial distress which they attempted to overcome by diminishing quality and reducing prices. The Group's response to such attempts was to keep a steady flow of good-quality products at reasonable prices and to ensure the continuing presence of products on the shelves of supermarkets. This strategy worked well, in our view, and by the end of the year the Group's volumes in soft cheese experienced the dynamics not seen since 2004-2005. The smoked sausage cheese, in particular, has been a bright spot. A relatively new product for the Group, it now accounts for close to 30% of the total soft cheese sales and continues to grow. As a result, the Group's overall domestic sales have grown and are expected to grow further due to the continuing expansion of the supermarkets.

The new product category, hard cheese, was moving into production by the end of the year. The initial trials of the product were very encouraging as the quality differentiated the Group's hard cheese from competitors' offerings. For the reasons of profit maximisation due to the extremely favourable world market conditions for skimmed milk powder in 2007, it was decided to divert the supply of raw milk to production of skimmed milk powder – the strategy that worked very well for the company and investors. Starting from the beginning of 2008, we expect milk volumes to rise substantially to provide increasing input for the volumes of hard cheese. The quality of our hard cheese is now sufficient to safeguard the Group's brand standards and to provide customers with a first-class product.

Our capex programme for the year was fully reflective of the recovery mode. The emphasis was on the maintenance of capex, as well as on drawdown of the pre-committed expenditures for the year. The hard cheese plant at Starkon was completed in July, a new smoke room was deployed to Molochnik in August, and a new set of equipment for whey purification was installed at Starkon in November. In total, capital expenditure was materially lower in 2007 than in either of the last two years. This approach safeguarded the Group's cash position and had the benefit of helping the Group remain financially secure at a time of the credit markets turmoil.

Our distribution system, while remaining the backbone of the Group's business model, has had to adapt to the new requirements. The development of the modern retail formats in Ukraine is both an opportunity and a challenge. It is an opportunity because there is an on-going inevitable shift of consumers towards supermarkets away from the open-air markets. The Group is keen to capitalise on this opportunity by delivering good quality products and providing consistent service to the emerging retail players. It is also a challenge because the centralised distribution warehouses do not exist for a majority of supermarkets in Ukraine. Therefore, the Group is expected to provide retail customers with efficient yet economical distribution support. With this principle in mind, we have determined that the distribution subsidiary in Ternopil, Western Ukraine had to be closed. The closure did not affect the existing sales in the larger Western Ukraine as the client lists have been transferred to the Lviv subsidiary. In the future, we believe that a selective optimisation of the distribution system will become a feature of the on-going corporate rationalisation programme.

Our system for the supply of raw milk and raw milk ingredients proved itself capable of handling significantly larger quantities of input than a year before. We have been developing the milk collection system for over seven years now and we believe that we have one of the best milk supply chains in the country. Being a traditionally favourable region for milk production, Western Ukraine where our major plants are located, offers significant opportunities for further expansion of the milk collection capacity of the Group in the future.

Looking forward

In the opinion of the Board, the Group’s core domestic markets in Ukraine are still offering attractive opportunities for business development. Ukraine remains a dynamically developing, vibrant economic environment with rising consumer affluence and burgeoning interest in quality food products. It has been the Group’s business to develop such products and bring them to the consumers, and we are hopeful to be able to continue our progress for every product segment of our operations. In our traditional products, soft cheese and packaged butter, we remain the market leader and have full intent of being there for a long time. The major thrust of the management efforts in the near future will be directed at maximising the production capacities in these segments. In skimmed milk powder, we are certain that the times of increased volatility will be succeeded by times of excellent opportunities such as the year under review. Our particular emphasis in the coming years is the development and firm establishment of our new product, hard cheese, in the Ukrainian marketspace. The initial steps are encouraging and we are looking forward to the continuation of work in this direction. In particular, our new upmarket brand “Molendam” will be introduced to the consumers soon and leveraged in hard cheeses (for which it was primarily designed), as well as in processed cheese and butter. We anticipate that this brand will improve margins considerably.

I would like to express my gratitude to everyone at the Group who made the last year such a prominent success. Together, we are looking forward to the new exciting future of opportunities and growth.

Iryna Yevets
Chief Executive Officer

22 April 2008

FINANCIAL REVIEW

Results

In 2007, the Group generated sales of £48.1 million (2006: £35.0 million), the main driving factor of the increase being skimmed milk powder. This product accounted for an unusually high proportion of sales and gross profits: £20.4 million (42%) and £3.8 million (36%) respectively (2006: £7.0 million and £0.9 million). Other product segments have also done well. Packaged butter, our long-time solid performer, generated £13.0 million in sales and £3.5 million in gross profit (2006: £11.6 million and £2.9 million). Soft (processed) cheese, helped by an encouraging trend in smoked sausage cheese, posted sales of £12.2 million and gross profit of £2.8 million (2006: £12.7 million and £3.1 million). The balance of sales and gross profits was made up by the distribution of third-party products and provision of transport services.

EBITDA[1] for the year under review is reported at £5.5 million vs. £2.8 million the year earlier. Such a significant increase resulted mainly from the upside in sales and margins delivered by skimmed milk powder, as well as from the stringent cost controls imposed in 2006 and continued throughout 2007.

Profit before taxes (PBT) amounted to £3.7 million (2006: £1.2 million). One of the substantial items of expenditure last year was interest expense at £0.5 million (2006: £0.2 million). This was clearly a temporary situation, due to the necessity to fund forward storage and complete the new hard cheese plant, and the Group's borrowing requirement and leverage have always remained conservative.

Product segments

The following table shows the gross and PBT margins for 2007 and 2006.

Product / Year	Butter		Milk powders	Soft (processed) cheese		
	2007	2006	2007	2006	2007	2006
Gross margin, %	26.8	24.7	18.6	12.3	22.9	24.1
PBT margin, %	13.3	10.1	16.6	9.2	5.5	5.0

Gross margins increased in butter and milk powders, but decreased in soft cheese. In the first of these two categories, butter, there has been a pronounced consumer shift towards quality. The Group, with its quality offering of butters for every segment of the market, has been one of the principal beneficiaries among the dairy processors in Ukraine. In milk powders, a runaway demand for the product worldwide ensured that the margins increase accordingly, notwithstanding a seasonal increase in raw milk prices in Ukraine. In soft cheese, the gross margin decreased slightly as a consequence of the increase in raw milk prices but the pre-tax margin increased reflecting the rising efficiencies in sales & distribution system of the Group.

Cash flow and capital expenditure

Net cash flow generated by the operating activities was reported at £3.5 million (2006: £4.1 million). The strong positive operating cash flow was a direct result of the improved profitability and management's efforts to control the cash flow by maintaining the stringent debt collection discipline. Although the balance of inventories and trade receivables increased somewhat during the year, this was a normal consequence of the recovering sales and shift towards supermarkets in distribution. Capital expenditure in the year came to £2.7 million (2006: £4.5 million) – a return to a more normal pattern of maintenance capex. The main investments were made in the hard cheese plant and the development of the milk collection areas surrounding the Group's plants.

[1] EBITDA is calculated by adding depreciation and amortisation to the profit from operations.

Bank facilities

The Group has a working capital facility of up to £4.0 million (2006: £4.5 million) provided by Ukraine OTP bank at interest rates fixed in both Hryvna and US Dollar. As at 31 December 2007, £3.4 million of this facility was used (2006: £3.1 million). The facility is renewable in May 2008 and has various clauses protecting the Group from the occurrence of unexpected events. Overdraft facilities of up to £1.5 million are also available to the Group from various banks in Ukraine. As at 31 December 2007, none of these facilities was used (2006: nil). Further funding for working capital needs and project finance, if necessary, is available from either the principal bankers or other banking institutions in Ukraine.

Earnings per share

The basic earnings per share (EPS) in the year was 7.8 pence as compared to 2.6 pence in 2006. The basic EPS has been calculated by dividing net profit attributable to ordinary shareholders by the time-weighted average number of shares in issue throughout the year. The diluted earnings per share was 7.5 pence for the year versus 2.6 pence in 2006.

Dividends

In view of the Group's positive trading performance and strong cash generation, the Board is recommending a final dividend of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year (2006: 0.61 pence). If approved at the AGM, the final dividend will be paid on 30 June 2008 to shareholders on the register as at 6 June 2008.

Dmitry Dragun
Chief Financial Officer

22 April 2008

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December 2007 £ '000	Year ended 31 December 2006 £ '000
Revenue	**48,110**	**35,053**
Cost of Sales	**(37,652)**	**(27,805)**
Gross profit	**10,458**	**7,248**
Administrative expenses	(2,770)	(2,720)
Selling and distribution expenses	(2,919)	(2,616)
Other operating expenses	(619)	(477)
Profit from operations	**4,150**	**1,435**
Finance income	20	-
Finance expense	(493)	(237)
Profit before taxation	**3,677**	**1,198**
Income tax expense	(415)	(119)
Profit for the year	**3,262**	**1,079**
Attributable to:		
Equity holders	3,256	1,095
Minority interest	6	(16)
	3,262	**1,079**
Earnings per share:		
Basic	7.8	2.6
Diluted	7.5	2.6

CONSOLIDATED BALANCE SHEET

	As at 31 December 2007 £ '000	As at 31 December 2006 **£ '000**
Assets		
Non-Current Assets		
Property, Plant and equipment	11,903	10,865
Intangible assets	1,093	1,237
Loans and receivables	108	244
Deferred tax assets	51	42
Total non-current assets	**13,155**	**12,388**
Current assets		
Inventories	4,008	2,650
Trade and other receivables	5,139	3,710
Other financial assets	276	116
Cash and cash equivalents	1,087	159
Total Current assets	**10,510**	**6,635**
Total assets	**23,665**	**19,023**
Equity and liabilities		
Equity attributable to equity holders		
Share capital	4,164	4,121
Other reserves	4,060	4,181
Retained earnings	7,031	4,141
Total equity attributable to equity holders of the parent	**15,255**	**12,443**
Minority interest	**131**	**199**
Total equity	**15,386**	**12,642**
Liabilities		
Non-Current Liabilities		
Long-term loans	-	102
Deferred tax liabilities	752	767
Total Non-Current Liabilities	**752**	**869**
Current Liabilities		
Bank loans and overdrafts	3,407	3,146
Trade and other payables	3,239	1,953
Bonds	811	353
Other short-term liabilities	-	36
Current income tax liabilities	70	24
Total Current Liabilities	**7,527**	**5,512**
Total equity and liabilities	**23,665**	**19,023**

These financial statements were approved and authorised for issue by the Board of Directors on April 22, 2008.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2007 **£ '000**	Year ended 31 December 2006 **£ '000**
Cash flows from operating activities		
Profit for the year	**3,262**	**1,079**
Adjustments for:		
Exchange difference	15	20
Depreciation and amortisation	1,371	1,359
Loss on disposal of non-current assets	64	16
Interest expense	493	237
Interest income	(20)	-
Income tax expense	415	119
Share based payments	-	19
(Increase) / decrease in inventories	(1,444)	1,396
(Increase) / decrease in trade and other receivables	(1,884)	159
Increase / (decrease) in trade and other payables	1,649	(577)
Cash generated from operations	**3,921**	**3,827**
Interest received	20	-
Income tax (refunded)/paid	(384)	259
Net cash generated by operating activities	**3,557**	**4,086**
Cash flows from investing activities		
Payments for property, plant and equipment	(2,712)	(4,551)
Purchase of loans and receivables	(25)	(169)
Proceeds from sale of property, plant and equipment	28	35
Proceeds from sale of loans and receivables	176	-
Net cash used in investing activities	**(2,533)**	**(4,685)**
Cash flows from financing activities		
Gross repayments from long term borrowing	(100)	(34)
Proceeds from issue of bonds net of issue costs	463	357
Proceeds from issue of shares net of issue costs	241	-
Dividends paid	(459)	(247)
Interest paid	(493)	(237)
Net proceeds from short-term borrowing	267	536
Net cash generated by/(used in) financing activities	**(81)**	**375**
Net increase/(decrease) in cash and cash equivalents	**943**	**(224)**
Effect of exchange rate changes and restatements on cash and cash equivalents	(15)	(70)

Cash and cash equivalents at the beginning of the year	**159**	**453**
Cash and cash equivalents at the end of the year	**1,087**	**159**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders			Total attributable to equity holders of the parent	Mino-rity interest	Total Equity
	Share capital **£ '000**	Other reserves **£ '000**	Retained earnings **£ '000**	**£ '000**	**£ '000**	**£ '000**
Balance at 1 January 2006	**4,121**	**5,200**	**3,815**	**13,136**	**246**	**13,382**
Depreciation on revaluation of non-current assets	-	(135)	137	2	-	2
Reduction of revaluation reserve	-	(4)	-	(4)	-	(4)
Decrease of minority interest	-	2	(2)	-	(2)	(2)
Exchange differences on translation to the presentation currency	-	(900)	(665)	(1,565)	(29)	(1,594)
Net income (expense) recognised directly in equity	**-**	**(1,037)**	**(530)**	**(1567)**	**(31)**	**(1,598)**
Profit for the year	-	-	1,095	1,095	(16)	1,079
Total recognised income and expense for the year	**-**	**(1,037)**	**565**	**(472)**	**(47)**	**(519)**
Dividends paid	-	-	(247)	(247)	-	(247)
Issue of shares	-	-	-	-	-	-
Share based payments	-	19	-	19	-	19
Exclusion from Group	-	(1)	8	7	-	7
Balance at 31 December 2006	**4,121**	**4,181**	**4,141**	**12,443**	**199**	**12,642**
Depreciation on revaluation of non-current assets	-	(122)	122	-	-	-
Reduction of revaluation reserve	-	(2)	-	(2)	-	**(2)**
Decrease of minority interest	-	-	(10)	(10)	(70)	**(80)**
Exchange differences on translation to the presentation currency	-	(124)	(90)	(214)	(4)	**(218)**
Net income (expense) recognised directly in equity	**-**	**(248)**	**22**	**(226)**	**(74)**	**(300)**
Profit for the year	-	-	3,256	3,256	6	**3,262**
Total recognised income and expense for the year	**-**	**(248)**	**3,278**	**3,030**	**(68)**	**2,962**
Dividends paid	-	-	(459)	(459)	-	**(459)**
Issue of shares	43	198	-	241	-	**241**
Reduction of options reserve	-	(71)	71	-	-	-
Balance at 31 December 2007	**4,164**	**4,060**	**7,031**	**15,255**	**131**	**15,386**

1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial information are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

The majority of companies making up the Group maintain their accounting records in accordance with Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as considered necessary in order to comply with IFRS. Accounting records of the Operating Group are maintained in Ukrainian Hryvna ("UAH"). The Hryvna has also been adopted as the functional currency for the purpose of the consolidated financial statements (see note 1(d)). Since the Ukrainian Hryvna is not a major convertible or recognisable currency outside of Ukraine, and also because the Group’s public shareholder base has been located mostly in the UK, the financial information has been translated into British pounds sterling (hereinafter “GBP” or £) at the rates given in note 1(o), as the Group’s presentational currency. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(b) Revenue recognition

Revenues arising to the Group as a result of the sale of goods and the rendering of services are recognised in the period to which they relate and measured at the fair value of the consideration received or receivable. Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Group. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenues and expenses are recognised on an accruals basis.

(c) Principles of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

(d) Translation from functional to presentation currency

Management has considered what would be the most appropriate functional and presentational currencies for these financial statements. As a result of this review management has concluded that:

(i) the Ukrainian Hryvna is the currency of the primary economic environment in which the Group operates. Consequently the Ukrainian Hryvna is the most appropriate functional currency for the Group;

(ii) the Group should use British pounds sterling as the presentational currency for its consolidated IFRS financial statements.

Consequently, management has used the following basis for the translation of Ukrainian Hryvna figures to British pounds for presentation purposes:

(i) for current year figures all assets and liabilities are translated at the rate effective at the balance sheet date. Income and expense items are translated at rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used).

(ii) for comparative figures all assets and liabilities are translated at the closing rate existing at the relevant balance sheet date. Income and expense items are translated at rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used).

(iii) all exchange differences resulting from the application of the translation methods described above are recognised directly in equity as a separate component of equity (IAS 21.39 (c))

Actual exchange rates applied in the translation are detailed in note 1(o) below.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

The Group has recognised business segments as primary format of segment reporting. The secondary format was chosen to be the geographical segment.

(f) Property, plant and equipment

Figures calculated using Ukrainian statutory accounting rules, have been adopted as deemed depreciated historical cost for property, plant and equipment as at 1 January 2004. Subsequent additions have been recorded at cost.

With effect from 1 January 2004, the Group adopted the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets. The Group’s assets were revalued in January 2004. This change of accounting policy was made on the grounds that management believe that this policy provides more reliable and relevant financial information because it better reflects the value in use of such assets to the Group. In accordance with the provisions of that standard, the revaluation model has not been applied retrospectively.

All categories of property, plant and equipment are subsequently carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Changes in fair value are recognised in equity (the "revaluation reserve"). An appropriate transfer is made from the revaluation reserve to the retained earnings when freehold land and buildings are expensed through the income statement (e.g. through depreciation, impairment or sale).

Depreciation is applied to all items of property, plant and equipment with the exception of land. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20-40 years;
Plant and machinery	7-15 years;
Equipment and motor vehicles	3-10 years.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit.

(g) Assets under construction

Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the Group's material costs incurred. No depreciation is charged on assets during construction. Upon the completion, the group assess whether there is any indication that an asset may be impaired. If any such indication exists, the group performs impairment testing as described in note 1(j). In case no indication exists that the asset may be impaired, all accumulated costs of the asset are transferred to the relevant fixed asset category and depreciated at applicable rates from the time the asset is completed and ready for use.

(h) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specialised software. These costs are amortised over their estimated useful lives using the straight-line method. The amortisation expense is included within administrative expenses in the Income Statement.

Trademarks are shown at historical cost. Trademarks have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years). The amortisation expense is included within Selling & Distribution expenses in the Income Statement.

Customer list is shown at fair value at the date of revaluation obtained by using the estimates of the independent valuers**,** less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the customer list over its estimated useful lives (20 years). The amortisation expense is included within Other expenses in the Income Statement.

(i) Goodwill

Goodwill is excess of acquisition costs above the fair value of assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is reported in intangible assets with any impairment being charged to the Income Statement within administrative expenses. Goodwill is assessed annually with respect to the impairment of value and reported at cost net of total loss from impairment of value. Gains or losses on disposal of a subsidiary include the carrying value of goodwill related to the subsidiary sold.

(j) Impairment of assets

Assets with indefinite useful life are not amortised and are annually assessed with respect to the impairment of their value. Assets subject to amortisation are assessed with respect to the impairment of their value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Whenever the carrying amount of an asset exceeds its recoverable value, an impairment loss is recognised in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present discounted value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal after the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for a cash generating unit.

Impairment charges are included in the administrative expenses line item in the Income Statement, except to the extent they reverse gains previously recognised in the Statement of Changes in Equity.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished and unfinished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(m) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period. Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received. Where fair value of goods and services received from persons other than employees is difficult to identify, the group the fair value of the instruments granted is charged to income statement over the vesting period.

(n) Income taxes

Taxation has been provided for in the financial statements in accordance with relevant legislation currently in force. The charge for taxation in the Income Statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes except for those difference permanently disallowed. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(o) Foreign currency translation

Transactions denominated in currencies other than the Hryvna ("foreign currencies") are recorded in Hryvna at the exchange rate effective on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement using the effective exchange rate on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Hryvna at the official exchange rate at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the Income Statement as foreign exchange translation gains and losses.

Income and expense figures have been converted to British pounds for presentation purposes at rates approximating to those ruling when the transactions took place. (As there were no significant fluctuations of the exchange rate during the year, the average rate was used). Assets and liabilities items have been converted to British Pounds (£) for presentation purposes at the closing rate. The resulting exchange differences are recognised as a separate component of equity.

For translation of the financial data, the exchange rates of Ukrainian Hryvna to GBP and USD officially set by the National Bank of Ukraine were used. The weighted average rate for the year was calculated based on the daily exchange rates officially set by the Bank of Ukraine.

	Hryvna for 1 GBP (£)	Hryvna for 1 USD ($)
Official rate as at December 31, 2007	10.0973	5.0500
Official rate as at December 31, 2006	9.9045	5.0500
Weighted average rate for 2007	10.1124	5.0500
Weighted average rate for 2006	9.3128	5.0500

(p) Pension costs

The Group contributes to the Ukrainian mandatory state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred and are included in staff costs. The Group doesn't operate any other pension schemes.

(q) Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss: This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method less any provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group may renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

(r) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Bank borrowings and bonds issued by the Group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and interest payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(s) Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

(t) Share issue costs

All qualifying transaction costs in respect of the issue of shares are accounted for as a deduction from share premium, net of any related tax deduction. Qualifying transaction costs include costs of preparing the prospectus, accounting, tax and legal expenses, underwriting fees and valuation fees in respect of the shares and of other assets.

(u) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. Segment information

At 31 December 2007, the Group was organised on a worldwide basis into three main business segments:

(1) Cheese;

(2) Butter; and

(3) Milk powders

The segment results for the year ended 31 December 2007 are as follows:

£ '000	Cheese	Butter	Milk powders	Total dairy	Transport services	Resale of third-party goods	Un-allocated	Total
Sales, Total	**32,180**	**40,794**	**35,805**	**108,779**	**3,172**	**11,888**	**-**	**123,839**
Sales to internal customers	20,023	27,796	15,395	63,214	2,513	10,002	-	75,729
Sales to external customers	12,157	12,998	20,410	45,565	659	1,886	-	48,110
Gross profit	**2,793**	**3,470**	**3,804**	**10,067**	**192**	**199**	**-**	**10,458**
Administrative expenses	(1,003)	(810)	(335)	(2,148)	(49)	-	(573)	(2,770)
Selling and distribution expenses	(1,119)	(932)	(75)	(2,126)	(51)	-	(742)	(2,919)
Other operating income / expenses	-	-	-	-	-	-	(604)	(604)
Income / loss from exchange differences	-	-	-	-	-	-	(15)	(15)
Profit before interest and taxation	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(1,934)**	**4,150**
Finance expense	-	-	-	-	-	-	(493)	(493)
Finance income	-	-	-	-	-	-	20	20
Profit before taxation	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(2,407)**	**3,677**
Taxation	-	-	-	-	-	-	(415)	(415)
Profit for the year	**671**	**1,728**	**3,394**	**5,793**	**92**	**199**	**(2,822)**	**3,262**
Segment assets	11,522	5,324	3,780	20,626	206	312	-	21,144
Unallocated corporate assets	-	-	-	-	-	-	2,470	2,470
Unallocated deferred tax	-	-	-	-	-	-	51	51
Consolidated total assets	**11,522**	**5,324**	**3,780**	**20,626**	**206**	**312**	**2,521**	**23,665**
Segment Liabilities	497	636	1,288	2,421	74	197	-	2,692
Unallocated corporate liabilities	-	-	-	-	-	-	4,835	4,835
Unallocated deferred tax	-	-	-	-	-	-	752	752
Consolidated total liabilities	**497**	**636**	**1,288**	**2,421**	**74**	**197**	**5,587**	**8,279**
Other segment information:								
Depreciation and amortisation	671	327	274	**1,272**	31	-	68	**1,371**
Capital expenditure	1,635	408	444	**2,487**	119	-	70	**2,676**

The unallocated corporate liabilities represent bank loans overdrafts, bonds and accruals.

The basis of pricing of the inter-segment transfers is the current market price at which the goods could be bought on the spot market externally but not lower than the full production costs plus the accompanying transport expenses.

The segment results for the year ended 31 December 2006 were as follows:

£ '000	Cheese	Butter	Milk powders	Total dairy	Transport services	Resale of third-party goods	Unallocate d	Total
Sales, Total	**33,399**	**40,206**	**16,572**	**90,177**	**3,625**	**6,196**	**-**	**99,998**
Sales to internal customers	20,655	28,550	9,536	58,741	2,734	3,470	-	64,945
Sales to external customers	12,744	11,656	7,036	31,436	891	2,726	-	35,053
Gross profit	**3,075**	**2,878**	**866**	**6,819**	**171**	**258**	**-**	**7,248**
Administrative expenses	(1,088)	(796)	(189)	(2,073)	(40)	-	(607)	(2,720)
Selling and distribution expenses	(1,347)	(909)	(32)	(2,288)	(45)	-	(283)	(2,616)
Other operating income / expenses	-	-	-	-	-	-	(457)	(457)
Income / loss from exchange differences	-	-	-	-	-	-	(20)	(20)
Profit before interest and taxation	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,367)**	**1,435**
Finance expense	-	-	-	-	-	-	(237)	(237)
Finance income	-	-	-	-	-	-	-	-
Profit before taxation	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,604)**	**1,198**
Taxation	-	-	-	-	-	-	(119)	(119)
Profit for the year	**640**	**1,173**	**645**	**2,458**	**86**	**258**	**(1,723)**	**1,079**
Segment assets	9,237	4,627	2,549	16,413	198	807	-	17,418
Unallocated corporate assets	-	-	-	-	-	-	1,563	1,563
Unallocated deferred tax	-	-	-	-	-	-	42	42
Consolidated total assets	**9,237**	**4,627**	**2,549**	**16,413**	**198**	**807**	**1,605**	**19,023**
Segment Liabilities	584	565	208	1,357	57	349	-	1,763
Unallocated corporate liabilities	-	-	-	-	-	-	3,851	3,851
Unallocated deferred tax	-	-	-	-	-	-	767	767
Consolidated total liabilities	**584**	**565**	**208**	**1,357**	**57**	**349**	**4,618**	**6,381**
Other segment information:								
Depreciation and amortisation	775	351	131	1,257	34	-	68	**1,359**
Capital expenditure	2,259	480	1,293	4,032	36	-	28	4,096

The unallocated corporate liabilities represent bank loans overdrafts, bonds and accruals.

Secondary reporting format – geographical segments:

Sales by country	**Year ended 31 December 2007** £ '000	**Year ended 31 December 2006** £ '000	
Ukraine		32,127	28,459
Denmark		3,658	1,623
Holland		3,432	332
Japan		2,322	122
Germany		1,085	683
North Korea		872	-
Azerbaijan		641	339
Turkey		546	-
Saudi Arabia		538	-
Algeria		422	-
Other countries	2,467	3,495	
Total	**48,110**	**35,053**	

The majority of the Group's recognised assets and liabilities are in Ukraine. Sales to the countries in Europe represent sales to international traders of milk powders located in Europe. These traders consequently resell the milk powders to other countries worldwide.

3. Earnings per share

Basic earnings per share has been calculated by dividing net profit attributable to the ordinary shareholders (profit for the year) by the weighted average number of shares in issue. The diluted earnings per share take into account the potential exercise of all options and warrants in existence and in the money at the date of this report. The options were granted to the Directors of the Company on 31 January, 2005 and are exercisable until 11 February 2009 at the price of £0.57. The warrants were granted to the Company's Brokers on 31 January 2005 and are exercisable until 11 February 2008 at the price of £ 0.535.

	31 December 2007	**31 December 2006**
Net profit attributable to ordinary shareholders, £'000	3,256	1,095
Weighted number of ordinary shares in issue	41,644,953	41,214,953
Basic earnings per share, pence	7.8	2.6
Weighted number of WH Ireland warrants in the money	1,172,896	–
Weighted number of Directors' option shares in the money	612,028	–
Diluted average number of shares	43,429,877	41,214,953
Diluted earnings per share, pence	7.5	2.6

As at 31 December 2007, there were no non-dilutive options or warrants in issue (2006: 2,214,924).

4. Dividends

As at 22 April 2008, the Board of Directors proposed the final dividend payment of 0.82 pence per ordinary share for the year ended 31 December 2007 which would lead to 1.40 pence per ordinary share for the full year. If approved at the AGM, the final dividend will be paid on 30 June 2008 to the shareholders on the register as at 6 June 2008. No tax consequences for the Group will arise out of this transaction as the Group's parent company is an entity registered under the Jersey laws.

	Year ended 31 December 2007 £ '000	**Year ended 31 December 2006 £ '000**
Final dividend for 2006 of 0.51 pence (2005 – 0.50 pence) per ordinary share proposed and paid during the year relating to the previous year's results	210	206
Interim dividend of 0.60 pence (2006 – 0.10 pence) per ordinary share paid during the year	251	41
Total	**461**	**247**

The directors are proposing a final dividend of 0.82 pence (2006 – 0.51 pence) per share totalling £350,000 (2006: £210,000). This dividend has not been accrued at the balance sheet date.

5. Availability or report

The Annual Report will be dispatched to shareholders around 24 May and will be available on the Company's website, www.ukrproduct.com.

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