

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you should immediately consult your stockbroker, bank manager, solicitor, or other independent financial adviser authorised for the purposes of the Financial Services and Markets Act 2000 in the United Kingdom or the Financial Services (Jersey) Law 1998, as amended, in Jersey and who specialises in advising on the acquisition of shares and other securities. Your attention is drawn to the section entitled "Risk Factors" in Part II of this document.

The Directors of Ukrproduct Group Ltd, whose names appear on page 8 of this document, accept responsibility, individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document has been drawn up in accordance with The Public Offers of Securities Regulations 1995 (as amended) ("the Regulations") and the AIM Rules. A copy of this document which comprises a prospectus under the Regulations has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Regulations.

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General provisions) (Jersey) Order 2002, and he has given, and not withdrawn, his consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Existing Ordinary Shares and the Placing Shares in the Company. It must be distinctly understood that, in giving such consent, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or the correctness of any statements made, or opinions expressed, with regard to it.

Application will be made for admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM, a market operated by the London Stock Exchange. It is expected that such admission will take place and that dealings in the Ordinary Shares will commence on 11 February 2005. It is emphasised that no application is being made for any Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange nor the UK Listing Authority has examined or approved the contents of this document.

Ukrproduct Group Ltd

(Incorporated and registered in Jersey, under the Companies (Jersey) Law 1991, as amended with Registered Number 88352)

Placing of up to 11,214,953 Placing Shares at 53.5p per share and Application for Admission to trading on AIM

by

Nominated Adviser and Broker

W.H. Ireland Limited

Placing Agent

Metropol (UK) Limited

SHARE CAPITAL IMMEDIATELY FOLLOWING COMPLETION OF THE PROPOSALS

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
50,000,000	£5,000,000	41,214,953	£4,121,495.30

This document does not constitute an offer to sell, or a solicitation of an offer to buy, Existing Ordinary Shares or Placing Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa or the United States of America. The Existing Ordinary Shares and Placing Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities legislation of any state of the United States of America or any province or territory of Australia, Canada, Japan, the Republic of Ireland or the Republic of South Africa or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly in or into Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa or the United States of America, or to any national, citizen or resident of Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa or the United States of America.

The distribution of this document and the placing of Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company, the Shareholders or W.H. Ireland, that would permit a public offer of Ordinary Shares or possession or distribution of this document where action for the purpose is required. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or an invitation to, purchase any Ordinary Shares in any jurisdiction in which such offer or invitation would be unlawful. Further information with regard to restrictions on offers and sales of the Ordinary Shares and the distribution of this document is set out in Part I - Details of the Placing and Admission.

W.H. Ireland, which is regulated by the Financial Services Authority, is acting for the Company in connection with the Proposals and is not acting for any other person other than the Company and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for providing advice to any other person in connection with the Proposals.

W.H. Ireland has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the Regulations or otherwise and no liability whatsoever is accepted by W.H. Ireland for the accuracy of any information or opinions contained in this document, for which the Directors are solely responsible, or for the omission of any information.

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DEFINITIONS

The following words and expressions shall have the following meanings in this document, unless the context otherwise requires:

“Acquisitions”	the acquisitions, conditional upon Admission, of the whole of the issued share capitals of Ukrproduct, Dairy Trading and LinkStar by the Company;
“Acquisitions Agreements”	the agreements dated 31 January 2005 relating to the Acquisitions, summaries of each of which are set out in paragraphs 8.7 and 8.12 of Part VI;
“Admission”	the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules;
“AIM”	a market operated by the London Stock Exchange;
“AIM Rules”	the rules published by the London Stock Exchange from time to time governing the admission to and operation of AIM;
“Articles”	the articles of association of the Company, as amended from time to time;
“Board” or “Directors”	the directors of the Company as at the date of this document, whose names are set out on page 8 of this document;
“Company”	Ukrproduct Group Ltd, a company incorporated and registered in Jersey under number 88352;
“Combined Code”	the combined code on corporate governance and the code of best practice included in the appendix to the Listing Rules of the UK Listing Authority;
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited;
“Dairy Trading”	Dairy Trading Corporation;
“Existing Ordinary Shares”	the 20 Ordinary Shares in issue as at the date of this document together with the 29,999,980 Ordinary Shares to be issued pursuant to completion of the Acquisitions;
“Group”	the enlarged group that will consist of the Company and the Subsidiaries following completion of the Acquisitions;
“Law”	the Companies (Jersey) Law 1991 as amended;
“LinkStar”	LinkStar Limited;
“London Stock Exchange”	London Stock Exchange plc;
“Metropol”	Metropol (UK) Limited;
“Official List”	the Official List of the UK Listing Authority;
“Operating Group”	the companies comprising the constituent entities for the financial information included in Part IV of this document, as defined in note 3b of that Part;
“Ordinary Shares”	ordinary shares of 10p each in the capital of the Company;

“Placing”	the proposed placing by W.H. Ireland as agent for the Company, and Metropol as agent for W.H. Ireland of the Placing Shares at the Placing Price pursuant to the Placing Agreement;
“Placing Agreement”	the conditional agreement dated 31 January 2005 between the Company (1), the Directors (2) and W.H. Ireland (3) relating to the Placing, a summary of which is set out in paragraph 8.3 of Part VI;
“Placing Price”	53.5p per Placing Share;
“Placing Shares”	11,214,953 new Ordinary Shares which are the subject of the Placing;
“Proposals”	the Acquisitions, Admission and the Placing;
“Prospectus”	this document dated 31 January 2005;
“POS Regulations” or “Regulations”	the Public Offers of Securities Regulations 1995 (as amended);
“Shareholders” or “Members”	holders of Existing Ordinary Shares;
“Share Options”	the share options granted to Dmitry Dragun and Iryna Yevets by the Company described in more detail in paragraph 5.3 of Part VI;
“Subsidiaries”	Ukrproduct Ukraine, Dairy Trading and LinkStar;
“UK”	United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	the Financial Services Authority acting in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, including where the context so permits any committee, employee or servant of such authority to whom any function of the UK Listing Authority may from time to time be delegated;
“UAH”	Hryvna, the national currency of Ukraine;
“Ukrproduct”	Ukrproduct Group CJSC;
“Ukrproduct Ukraine”	Ukrproduct and its subsidiaries; and
“W.H. Ireland”	W.H. Ireland Limited.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of the Prospectus	31 January 2005
Admission effective, and dealings in the Existing Ordinary Shares and the Placing Shares expected to commence	11 February 2005
CREST accounts credited	11 February 2005
Definitive share certificates despatched by no later than	18 February 2005

KEY STATISTICS

Number of Existing Ordinary Shares	30,000,000
Placing Price	53.5p
Number of Placing Shares	11,214,953
Number of Ordinary Shares in issue following the Proposals	41,214,953
Placing Shares as a percentage of the enlarged issued share capital	27.21%
Gross proceeds of the Placing receivable by the Company	£6,000,000
Estimated net proceeds of the Placing receivable by the Company	£5,000,000
Market capitalisation on Admission at the Placing Price	£22,050,000

KEY INFORMATION

THE FOLLOWING INFORMATION IS DERIVED FROM AND SHOULD BE READ IN CONJUNCTION WITH THE WHOLE OF THIS DOCUMENT INCLUDING IN PARTICULAR THE SECTION HEADED RISK FACTORS IN PART II OF THIS DOCUMENT. INVESTORS SHOULD READ THE WHOLE OF THIS DOCUMENT AND NOT RELY ON KEY OR SUMMARISED INFORMATION.

INTRODUCTION

The Company was incorporated on 18 August 2004, to effect the Acquisitions. Ukrproduct is the holding company for a group of dairy based FMCG (fast moving consumer goods) businesses located in Ukraine, Eastern Europe.

The main activities of Ukrproduct Ukraine are:

- production and supply of branded retail dairy products, namely packaged butter and processed cheese, to the wholesale and retail outlets in Ukraine;
- production and export of dried milk powder to the markets of Bulgaria, Denmark, Estonia, Japan, the Netherlands, Russia and other countries; and
- distribution and wholesale of food and beverages through its own distribution network in Ukraine.

The Company proposes to seek admission of its entire issued and to be issued ordinary share capital to trading on AIM and is raising approximately £5.0 million net of expenses by way of a placing of 11,214,953 Placing Shares. The net proceeds of the Placing will be used to invest in new plant and equipment, expand the Group's distribution network and provide additional working capital for expansion of the Group's operations.

UKRAINE

Independent since 1991, Ukraine has a growing economy in which disposable incomes are rising. In recent years Ukraine has experienced economic growth fuelled by the rising affluence of domestic consumers and external demand for Ukrainian products. The country's population at the end of 2003 was approximately 48 million. Ukraine borders the recently enlarged EU and is one of the larger countries in Europe, being comparable in size to France and Spain.

THE BUSINESS

Production and Supply of Branded Foods

Ukrproduct Ukraine manufactures and sells three main products; packaged butter, processed cheese and dried milk powder (36.7%, 39.8% and 16.1% of sales respectively in the first half of 2004).

Distribution

So far as the Directors are aware, Ukrproduct Ukraine is the only dairy producer in Ukraine to operate its own distribution network. It operates a fleet of approximately 170 vans and refrigerated vehicles which deliver to and collect from eight regional depots and a central warehouse.

REVENUE

Ukrproduct Ukraine produces a broad variety of butters and processed cheeses which are designed to satisfy a range of different customer needs and profiles ranging from below to above average income. The sales of its products by type and revenue generated through the wholesale and distribution of third party products during the first six months of 2004 are shown on page 12 in Part I of this document.

STRATEGY

The Group intends to develop organically, by growing its share of the processed cheese and packaged butter markets, by expanding production of dried milk powder and by increasing the volume of third party goods distributed through its network.

Ukrproduct Ukraine also plans to enter the hard cheese production market in Ukraine, an area which is strategically suited to Ukrproduct Ukraine's current operations. The hard cheese market is significantly larger in terms of size than the processed cheese market. Based on growth of its market share for its core products, the Group intends to follow a similar growth pattern in this new market.

The Group intends to extend further the existing distribution network to give more complete geographical coverage of Ukraine and to enable delivery to larger customer groups and to develop the distribution and wholesaling operations as services in their own right.

FINANCIAL INFORMATION

The following financial information has been extracted from the Accountant's Report on Ukrproduct Ukraine contained in Part IV of this document and should be read in conjunction with the full text of the Accountants' Report. Investors should not rely solely on the key summarised information.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Revenues	7,293	8,647	17,597	11,025
Profit before taxation	63	157	1,262	755

DETAILS OF THE PLACING AND ADMISSION

The Company is proposing to raise £6 million before expenses, by way of the placing of up to 11,214,953 Placing Shares at 53.5p per share. The Placing Shares will represent approximately 27.21 per cent. of the Company's issued share capital following Admission. The Placing Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that trading in the Existing Ordinary Shares and the Placing Shares on AIM will commence on 11 February 2005.

W.H. Ireland has agreed to use all reasonable endeavours to procure subscribers for the Placing Shares. The Placing is not being underwritten and it is conditional, *inter alia*, on the Existing Ordinary Shares and the Placing Shares being admitted to trading on AIM. Metropol has agreed to act as placing agent for W.H. Ireland in connection with the Placing.

DIRECTORS, SECRETARY AND ADVISERS

<i>Directors</i>	Jack Rowell (<i>Non-executive Chairman</i>) Sergey Sergeevich Evlanchik (<i>Chief Executive Officer</i>) Alexander Konstantinovich Slipchuk (<i>Director</i>) Iryna Vladimirovna Yevets (<i>Chief Operating Officer</i>) Dmitry Vladimirovich Dragun (<i>Finance Director</i>) David Paul Lumley Williams (<i>Non-executive Director</i>) David Michael Lattimore (<i>Non-executive Director</i>)
all of <i>Registered Office</i>	26 New Street St Helier Jersey JE2 3RA
<i>Company Secretary</i>	Bedell Cristin Secretaries Limited P.O. Box 75 26 New Street St. Helier Jersey JE4 8PP
<i>Placing Agent to Nominated Adviser and Broker</i>	Metropol (UK) Limited Princes House 38 Jermyn Street London SW1Y 6DN
<i>Nominated Adviser and Broker to the Company</i>	W.H. Ireland Limited 11 St James's Square Manchester M2 6WH
<i>Reporting Accountants and Auditors to the Company</i>	Baker Tilly 2 Bloomsbury Street London WC1B 3ST
<i>Solicitors to the Company</i>	Cobbetts Ship Canal House King Street Manchester M2 4WB
<i>Jersey Advocates to the Company</i>	Bedell Cristin 26 New Street St Helier Jersey JE2 3RA
<i>Solicitors to the Nominated Adviser and Broker</i>	Halliwells LLP St James's Court Brown Street Manchester M2 2JF
<i>Principal Bankers</i>	Deutsche Bank International Limited PO Box 727 St. Paul's Gate New Street St. Helier Jersey JE4 8ZB
<i>Registrars</i>	Capita IRG (Offshore) Limited Victoria Chambers Liberation Square 1/3 The Esplanade St. Helier, Jersey JE2 3QA

PART I

INFORMATION ON THE GROUP

INTRODUCTION

The Company was incorporated on 18 August 2004, to effect the Acquisitions. Ukrproduct is the holding company for a group of dairy based FMCG (fast moving consumer goods) businesses located in Ukraine, Eastern Europe.

The main activities of Ukrproduct Ukraine are:

- production and supply of branded retail dairy products, namely packaged butter and processed cheese, to the wholesale and retail outlets in Ukraine;
- production and export of dried milk powder to the markets of Bulgaria, Denmark, Estonia, Japan, the Netherlands, Russia and other countries; and
- distribution and wholesale of food and beverages through its own distribution network in Ukraine.

The Company proposes to seek admission of its entire issued and to be issued ordinary share capital to trading on AIM and is raising approximately £5.0 million net of expenses by way of a placing of 11,214,953 Placing Shares. The net proceeds of the Placing will be used to invest in new plant and equipment, expand the Group's distribution network and provide additional working capital for expansion of the Group's operations.

UKRAINE

Independent since 1991, Ukraine has a growing economy in which disposable incomes are rising. In recent years, Ukraine has experienced economic growth, an increase in the affluence of domestic consumers and an external demand for Ukrainian products. The Ukrainian State Statistics Committee has reported that GDP grew 12.7% to 142.7 billion UAH (approximately £14.9 billion) in the first half of 2004. Inflation in the first half of 2004 was 4.4%. In September 2004, the International Monetary Fund revised upwards its estimate of growth in real GDP from 4% to 6% for 2005. The country's population at the end of 2003 was approximately 48 million. Ukraine borders the recently enlarged EU and is one of the larger countries in Europe, being comparable in size to France and Spain.

HISTORY AND CURRENT STRUCTURE

History

Ukrproduct Ukraine's business has been operational for over 40 years and is currently controlled by two companies owned by Sergey Evlanchik and Alexander Slipchuk, who are both directors of the Company. Ukrproduct Ukraine has evolved into its present form following the privatisation of Ukrainian state-owned companies in the late 1990s.

At present, Ukrproduct Ukraine's main operating assets are two production plants in Ukraine, known as "Molochnik" and "Starkon".

The Molochnik plant occupies a site covering approximately 27,000m² located 130km west of Kyiv in the city of Zhytomyr and is where Ukrproduct Ukraine's business originated while Ukraine was part of the former Soviet Union. Originally used for the storage of bulk butter, a storehouse for ripening hard cheeses was added in 1969 and processed cheese manufacturing, using both butter and cheese stored at the site, commenced in the 1970s. Following privatisation, companies controlled by the current owners began to build up their holding in the privatised company. The plant now produces packaged butter and processed cheese and has achieved ISO 9001 standard.

The Starkon plant which occupies a site covering approximately 32,000m² located 130km further west of the Molochnik plant in Starokonstantinovskiy, is the other main operating plant. The plant now produces dried milk powder and bulk butter (all of which is packaged at the plant). Initially, companies controlled by the current owners had a minority stake in the privatised company, Starokonstantinovskiy Dry Reduced Fat Milk Plant,

before purchasing a controlling stake from the then majority shareholder in 2001. The assets were then transferred to Starkon-Moloko LLC which in turn leases them to Starokonstantinovskiy Molochniy Zavod SC which operates the plant.

After acquiring the Molochnik and Starkon plants, the new owners began concentrating on selling dairy produce to the domestic market in addition to exporting dried milk powder. A nationwide distribution network and a sales and marketing team were subsequently established since when profits have grown, every year since 2000.

Current Structure

Ukrproduct Ukraine

Ukrproduct is the current ultimate holding company of the following trading companies:

Company	Activity
Molochnik OJSC	Production of processed cheese and packaged butter, and cutting and vacuum packaging of hard cheese
Starokonstantinovskiy Molochniy Zavod SC	Production of bulk butter and dried milk powder
UkrProdExpo SC	Export of own produce (dried milk powder, bulk butter, processed cheese and packaged butter) and third-party products
Agrospetsresursy LLC	Sales of own produce (packaged butter and processed cheese), and distribution of third-party products for the Ukrainian market
Subsidiaries of Agrospetsresursy LLC	Each of the 8 trading subsidiaries of Agrospetsresursy LLC operates the distribution network in its own locality Agrospetsresursy LLC has two further subsidiaries, Intermilk SC and Vash Molochnik SC which are dormant and in the process of solvent liquidations. Agrospetsresursy LLC holds a 50% stake in Balakonenko LLC which is also dormant.

Further details of these companies are set out in paragraphs 2.3, 2.4 and 2.5 in Part VI of this document. On Admission the Group’s structure will be as shown in the diagram below.

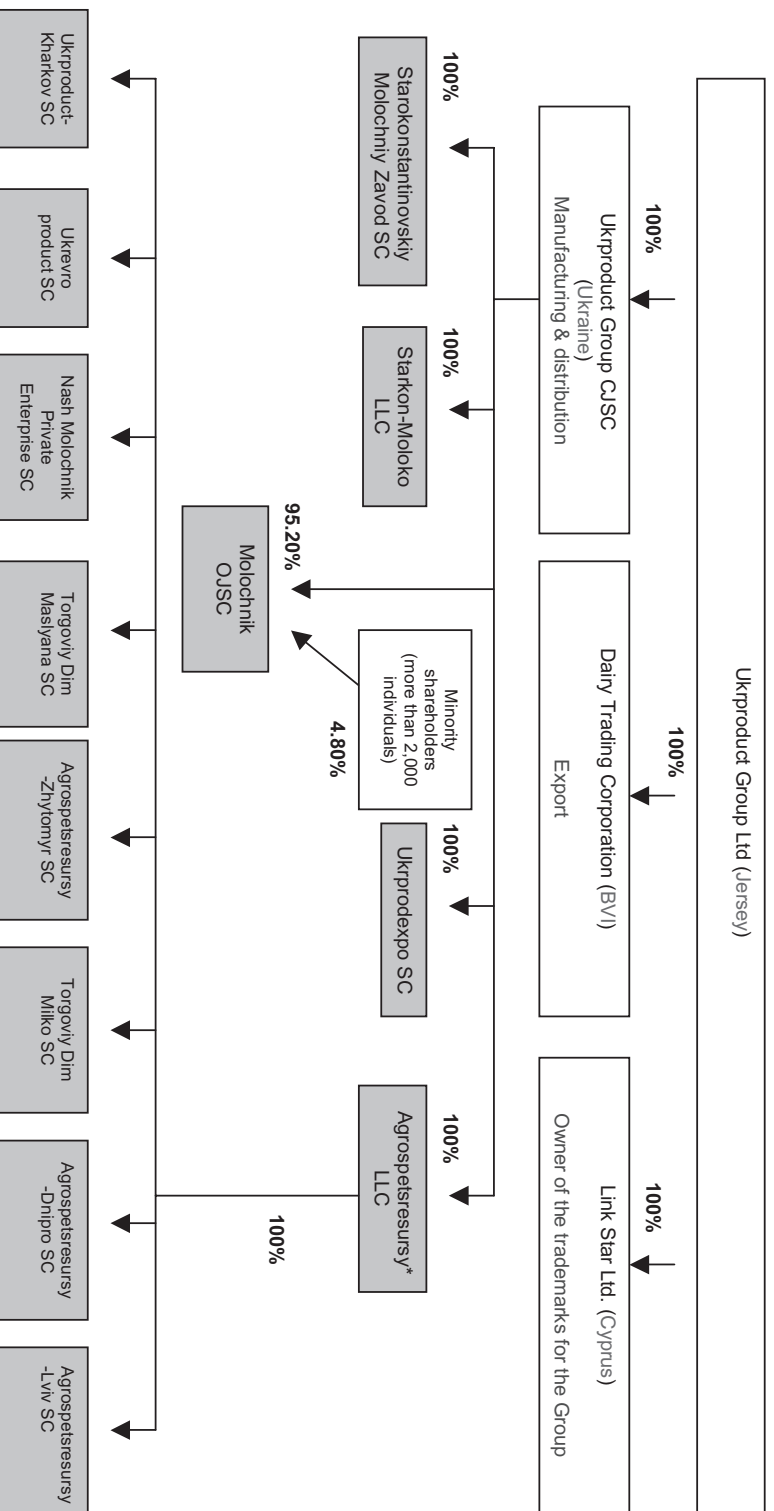
Dairy Trading

Dairy Trading is a company incorporated in the British Virgin Islands. It currently conducts the overseas sales of dried milk powder for Ukrproduct Ukraine, and will continue to perform this role for the Group upon completion of the Acquisitions. Further details of Dairy Trading are set out in paragraph 2.2 in Part VI of this document.

LinkStar

LinkStar is a company incorporated in Cyprus. Its role within the Group following the Acquisitions will be to hold the Group’s intellectual property. It is intended that LinkStar will license the rights to use this intellectual property to the relevant companies within the Group in return for payments of royalties.

Group Structure on Admission



* Agrospetresursy LLC holds 100% of the issued share capital of Vash Molochnik SC and Intermilk SC and 50% of the issued share capital of Balakonenko LLC, all of which are dormant.

Ukrproduct Ukraine's corporate headquarters are based in Kyiv.

THE BUSINESS

Production and Supply of Branded Dairy Products

Ukrproduct Ukraine manufactures and sells three main products; packaged butter, processed cheese and dried milk powder (36.7%, 39.8% and 16.1% of sales respectively in the first half of 2004). Production of processed cheese and some butter packaging takes place at the Molochnik site in Zhytomyr, which currently produces 1,350 tonnes of processed cheese and 700 tonnes of packaged butter each month. Production of dried milk powder and bulk butter, as well as packaging of the bulk butter, takes place at the Starkon site. This plant produces 360 tonnes of milk powder and 600 tonnes of butter each month.

Ukrproduct Ukraine has made a net investment, in terms of the base cost of fixed assets, in excess of £600,000 in 2003 and approximately £600,000 in the six months to 30 June 2004. This investment has been made in modernising facilities at both sites, increasing production, equipping a laboratory for quality testing at the Molochnik site, and expanding the vehicle fleet.

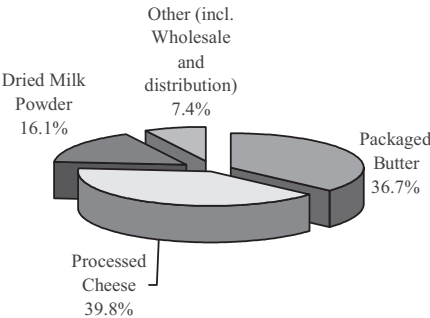
Distribution

So far as the Directors are aware, Ukrproduct Ukraine is the only dairy food producer in Ukraine to operate its own distribution network. It owns a fleet of approximately 170 vans and refrigerated vehicles. These deliver to and collect from eight regional depots and a central warehouse. The regional depots are located in eight cities in Ukraine: Dnipropetrovsk, Donetsk, Kharkiv, Kyiv, Lviv, Nikolaev, Temopil and Zhytomyr, which include the country’s six largest. The distribution business is supported by an IT system which supplies real-time information to Ukrproduct Ukraine.

At the end of November 2004, Ukrproduct Ukraine employed 1,029 personnel, of which 369 were located at Molochnik plant and 386 are employed at the Starkon plant. The remaining personnel are employed at Ukrproduct Ukraine’s corporate headquarters in Kyiv and at the eight distribution subsidiaries of Agrospletsresursy LLC located in various regions of Ukraine.

REVENUE

Ukrproduct Ukraine produces a broad variety of butters and processed cheeses which are designed to satisfy a wide variety of different customer needs and profiles ranging from below to above average income. The sales of its products by type and revenue generated through wholesale and distribution of third party products during the first six months of 2004 were:



Geographically, approximately 75% of Ukrproduct Ukraine’s sales in the first six months of 2004 were derived from the domestic market. The remaining 25% was accounted for by exports, mainly of dried milk powder.

SALES AND MARKETING

Ukrproduct Ukraine’s marketing and sales strategy is based on recognition of its core products: processed cheese and butter are essential staple foods for many people in Ukraine. Ukrproduct Ukraine produces a variety of butters and processed cheeses which are designed to cater for the requirements of different income groups. The Directors believe that an effective method of achieving and supporting sales is branding. In Ukraine, branding in general is not yet as advanced as it is in more developed economies. The Directors believe that Ukrproduct Ukraine’s brands are well positioned in the milk based food products market and that this will allow for continuing sales growth.

Ukrproduct Ukraine's 280 strong sales and marketing team employs various tools to enhance the brand position of Ukrproduct Ukraine, including merchandising, trade promotions, price adjustments and market analysis throughout Ukraine.

MARKET AND COMPETITION

Processed Cheese

Consumption of processed cheese in Ukraine in 2003 has risen by 10.9% compared to 2002 and a further increase in levels of consumption has been forecast. The Ukrainian diet has traditionally included a high proportion of dairy food. The product range has been expanded over recent years and during the same period the level of sales has increased.

In 2003, 29,800 tonnes of processed cheese were produced in Ukraine, the highest level since independence in 1991. Production of processed cheese in Ukraine is fragmented, with over 80 domestic manufacturers, though the larger businesses are beginning to dominate, with the ten largest producers accounting for around 70% of the total volume. Imports account for about 2% of the market and 4% of the processed cheese produced in Ukraine is exported. Ukrproduct Ukraine had a 23% market share in 2003 which it believes to be the largest. Ukrproduct Ukraine's sales growth has continued in 2004 and by Ukrproduct Ukraine's own estimates, it achieved a 31% market share during the first 9 months of 2004.

Packaged Butter

Consumption of packaged butter in 2003 has increased by 7.9% compared to 2002. In 2003, 35,300 tonnes of packaged butter were produced in Ukraine. Ukrproduct Ukraine had a 17.4% market share in 2003 which it believes to be the largest market share in this sector.

Dried Milk Powder

The Directors envisage that the production of dried milk powder will continue to be a valuable contributor to Ukrproduct Ukraine's revenue. In 2003, 71,405 tonnes of dried milk powder were produced in Ukraine. The Directors plan to increase the volume of dried milk powder produced by implementing new production methods. Ukrproduct Ukraine had a 4.19% share of this market in 2003.

Distribution

The distribution network is important to Ukrproduct Ukraine's business. The Directors consider that the retail sector in the Ukraine is underdeveloped compared to other Eastern European countries as evidenced by the fact that the majority of purchases are still made from street vendors and open air markets rather than supermarket style retail outlets. The Directors believe that Ukrproduct Ukraine's distribution network will enable the Group to deliver to larger outlets as the market develops.

Ukrproduct Ukraine's distribution network is also used to re-sell and distribute products for third parties. This accounted for approximately 7.4% of revenues in the 6 month period to 30 June 2004. Ukrproduct Ukraine does not distribute third party products which compete with its own core products.

SUPPLIERS

Milk is the principal raw material used at the Starkon site. Ukrproduct Ukraine collects milk from farmers and smallholders using its own fleet of tankers. As the site is at the heart of the Khmel'nitskaya milk production area whose volume of milk production was the third highest in Ukraine in 2002 and 2003, the Directors do not foresee any difficulty in maintaining the supply of milk to the plant. The Directors believe that Ukrproduct Ukraine purchases approximately 13% of the milk produced in the area immediately surrounding the Starkon site and that it is the largest purchaser in the locality. The Directors also consider that Ukrproduct Ukraine's market share and collection method would enable it to purchase larger quantities of milk if required.

Hard cheese, fat-free curd, milk powder, butter, milk protein substitute and various emulsifiers and stabilisers are all required in order to manufacture processed cheese. The majority of these are either produced by Ukrproduct Ukraine or are available from the many smaller dairy producers in Ukraine. Although the prices of raw materials

are subject to seasonal fluctuations, new leased storage facilities near the Molochnik plant allow Ukrproduct to purchase raw materials during summer when product is plentiful and store them for use later in the year, thus mitigating against the traditionally higher prices in winter.

STRATEGY

The Group intends to develop organically by growing its share of the processed cheese and packaged butter markets, by expanding production of dried milk powder and by increasing the volume of third party goods distributed through its network.

Ukrproduct Ukraine also plans to enter the hard cheese production market in Ukraine, an area which is strategically suited to Ukrproduct Ukraine's current operations. The hard cheese market is significantly larger in terms of size than the processed cheese market. The Group's plans to enter the hard cheese market are contingent upon sufficient continued growth in the existing core segments; processed cheese, packaged butter and dried milk powder. The Group's initial approach towards entering the hard cheese market will be:

- active use of the Group's distribution and logistics capabilities for distribution of third party hard cheese products; this will allow the Group to accumulate experience of the hard cheese market;
- monitoring of the hard cheese market to stay informed of market developments and to identify the most advantageous time of entry into the market;
- completion of location feasibility studies to identify suitable sites in Ukraine for the development of production facilities.

The Group intends to develop new processed cheese products for lower and higher income consumers. The Directors also intend to start advertising its middle and high price products to increase customer awareness.

It is also intended that the Group will extend its existing distribution network to give more complete geographical coverage of Ukraine and to enable delivery to larger customer groups.

CURRENT TRADING AND PROSPECTS

Ukrproduct Ukraine's sales for the year ended 31 December 2003 more than doubled to £17.59m compared to 2002 with strong increases in sales experienced for all three product areas.

Since the end of the financial year 2003, Ukrproduct Ukraine continued its planned development of its three main product lines; packaged butter, processed cheese and dried milk powder. Further development of the distribution network, continuing upgrades in logistics capability and the efforts of the sales force to deliver its products to consumers all over Ukraine have led to the continued growth of the business.

These developments have occurred against the backdrop of the continued positive development of the Ukrainian economy in 2004. The trading prospects of the Group for the remainder of the financial year 2004 are expected to be in line with the Directors' estimates.

DIRECTORS

The Board of the Company as at the date of this document comprises seven Directors, as follows:

Jack Rowell, (Aged 68), *Non-executive Chairman*

Dr. Rowell has acted as Chairman of a number of companies in the public and private sector, mainly in food. He was previously an executive director on the board of Dalgety plc with responsibility for the consumer foods division. Prior to this Dr. Rowell was CEO of Golden Wonder Ltd. and Lucas Food Ingredients (also part of the Dalgety Food Group). He was educated at Oxford University and is a chartered accountant.

Sergey Evlanchik, (Aged 29), *Chief Executive Officer*

Sergey Evlanchik is a founder and co-owner of Ukrproduct Ukraine. He studied at Vladivostok State University of Economics & Service in the Russian Federation and Oxford University in the UK, where he received his MBA degree. Together with Alexander Slipchuk, he established the equity trading company, Alfa-Broker in 1994. After the collapse of the Russian and Ukrainian equity markets in 1998, Mr Evlanchik re-focused his

activities on business development in the industrial sector of Ukraine, the dairy business in particular, joining companies that would form Ukrproduct Ukraine in 1998.

Alexander Slipchuk, (Aged 37), Executive Director

Alexander Slipchuk studied at Far-Eastern High Engineering Marine School and graduated as a maritime navigator in 1989. Together with Sergey Evlanchik, Alexander established the securities house Alfa-Broker in 1994 and developed the equity trading business in the far east of the Russian Federation. Mr. Slipchuk joined Ukrproduct Ukraine in 1998 taking an executive, hands-on operating position at the Molochnik and the Starkon plants.

Iryna Yevets, (Aged 35), Executive Director

Iryna Yevets is Chief Executive Officer of Ukrproduct, responsible for the overall performance and implementation of strategy in Ukraine. Ms Yevets is a qualified accountant who started her own company, Audit Legal Services, in Lviv in 1994. In 2001 she took up a position as Chief Accountant at Latoritsa, a leading integrated food company based in Western Ukraine. She joined Ukrproduct Ukraine as financial director in 2002, becoming CEO in 2003. Ms Yevets holds Honours in Economics & Engineering from Lviv Engineering University.

Dmitry Dragun, (Aged 38), Finance Director

Dmitry Dragun is Finance Director of the Company. Dmitry worked at National (Central) Bank of Belarus in a variety of senior executive positions before going to Oxford to study for an MBA in 1997. Post MBA, Dr. Dragun has remained in the UK as the Senior Research Associate in Finance at Templeton College, Oxford University's designated centre of business studies and executive development. Dr Dragun joined Ukrproduct Ukraine in 2003 as the Financial and Investment Adviser before being appointed as Finance Director of the Company in 2004. Dr Dragun holds the Chartered Financial Analyst (CFA[®]) certification.

Paul Williams, (Aged 60), Non-executive Director

Educated at Shrewsbury School and Clare College Cambridge, Mr Williams read modern languages and economics. For the last seven years he has been Finance Director and Company Secretary of Maelor plc, a North Wales based pharmaceutical company. He trained with his family firm, before joining Arthur Young McLelland Moores, subsequently becoming joint founder partner of his own accountancy practice, Pennington Williams, which he ran for over 22 years. Mr. Williams is a member of the London Stock Exchange's AIM Advisory Group and the North West Regional Advisory Group, and has been a regular speaker on behalf of AIM at many UK and international seminars.

David Lattimore, (Aged 55), Non-executive Director

David Lattimore is a Chartered Director with over thirty years' experience in the UK dairy industry primarily with Unigate plc and Dairy Crest plc. He is currently a director of Forgefirst Ltd., a management services company with clients ranging from government bodies to farmers' organisations and plcs.

SENIOR MANAGEMENT

In addition to the Directors, the key members of the senior management team of Ukrproduct Ukraine are:

Oksana Medyanaya, (Aged 28), Financial Director of Ukrproduct

Ms Medyanaya is a financial practitioner and a certified auditor, she has been the Financial Director of Ukrproduct since 2004. She graduated from Kyiv National Economic University with a Masters degree in Financial Management in 1997 and holds an international audit certification (CAP[®]). She is responsible for a range of functions, including management of the internal reporting and control systems, business planning and financial appraisal, overall and capital budgeting, supervision of compliance and internal audit, preparation of the management reports and financial communication

Ashok Kumar, (Aged 35), Director of Sales

Mr Kumar has worked at Unilever Ukraine in various positions from the mid 1990s through to 2001. He became Director of Sales for Ukrproduct in 2001. Mr Kumar holds a BSc degree in Mechanical Engineering from Zaporozhye Machine Building Institute.

Vasiliy Zagariya, (Aged 46), Production Manager

Mr Zagariya has been with Ukrproduct since 1999, where his main responsibility has been execution of the production strategy and implementation of expansion plans. He was responsible for the attainment of the ISO 9001 certification. Prior to joining Ukrproduct, Mr Zagariya worked at Electrofriz and Tavaz (Ukraine's manufacturers of industrial refrigeration systems), and has over 20 years' experience in managing large-scale industrial projects and production facilities. Mr Zagariya holds a BSc degree in Food Engineering from Kyiv Technological Institute (University) of Food Industry.

Kateryna Dvorianets, (Aged 30), Human Resources Director

Ms Dvorianets joined Ukrproduct in January 2001, having previously worked at Orimi Capital and JV Primo Star in Ukraine. Her work experience lies solely in the area of HR management. She has implemented the enterprise-wide HR policy and been credited with achieving a significant decrease in workforce turnover. Ms Dvorianets holds a BA (Honours) degree in Economics from Kyiv Institute of Culture, and a number of diplomas in Project and HR Management from Kyiv-Mohila Business School and Baltic Training Group.

REASONS FOR THE PLACING

The total funds raised from the Placing will be utilised by the Company to invest in new plant and equipment, in core sectors, to expand the distribution network and to provide additional working capital for the Group, as well as to cover the expenses of Admission. The Directors believe that Admission will raise the profile of the Group and enhance its reputation with customers and suppliers.

FINANCIAL INFORMATION

The following financial information has been extracted from the Accountant's Report on Ukrproduct Ukraine contained in Part IV of this document and should be read in conjunction with the full text of the Accountants' Report. Investors should not rely solely on the key summarised information.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Revenues	7,293	8,647	17,597	11,025
Gross profit	500	1,101	2,375	1,706
General and administrative expenses	(191)	(427)	(690)	(354)
Selling and distribution expenses	(126)	(272)	(399)	(415)
Other expenses	(38)	(133)	(180)	(72)
Income from waiver of debt	-	-	250	-
Profit before interest and taxation	145	269	1,356	865
Net interest payable and similar charges	(82)	(112)	(94)	(110)
Profit before taxation	63	157	1,262	755

DETAILS OF THE PLACING AND ADMISSION

The Company is proposing to raise £6 million before expenses, by way of the placing of up to 11,214,953 Placing Shares at 53.5p per share. The Placing Shares will represent approximately 27.21 per cent. of the Company's issued share capital following Admission. The Placing Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that trading in the Existing Ordinary Shares and the Placing Shares on AIM will commence on 11 February 2005.

W.H. Ireland has agreed to use all reasonable endeavours to procure subscribers for the Placing Shares. The Placing is not being underwritten and it is conditional, *inter alia*, on the Existing Ordinary Shares and the Placing Shares being admitted to trading on AIM. Metropol has agreed to act as placing agent for W.H. Ireland in connection with the Placing.

CREST

Application has been made for the Ordinary Shares of the Company to be admitted to CREST with effect from Admission and accordingly settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the relevant shareholders so wish. CREST is a paperless settlement procedure, which enables securities to be evidenced without a certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares under the CREST system.

CREST is a voluntary system and holders of the Ordinary Shares who wish to receive and retain certificates in respect of Ordinary Shares will be able to do so. It is expected that the Placing Shares will be admitted to CREST on 11 February 2005.

CORPORATE GOVERNANCE

The Board recognises the importance of sound corporate governance whilst taking into account the size and nature of the Group. As the Group grows, the Directors intend that the Company should develop policies and procedures in accordance with the Combined Code which are appropriate for a company of its size. The Board will take such measures, so far as is practicable, to comply with the Combined Code.

The Company has established an audit committee and a remuneration committee. The audit committee will be chaired by Paul Williams and will meet at least three times per annum. It is responsible for ensuring the integrity of the financial information reported to shareholders and the systems of internal controls (including reviewing the effectiveness of the Group's financial reporting, internal controls and risk management procedures and the external audit). This committee will provide an opportunity for reporting by the Company's auditors. The Chief Executive and Finance Director will attend meetings by invitation.

The remuneration committee will be chaired by David Lattimore and will meet at least twice per annum to determine the terms of employment and total remuneration of the executive Directors and the senior management of the Group, including the granting of share options. It will also review the performance of the executive Directors. The objective of this committee will be to attract, retain and motivate executives capable of delivering the Company's objectives. Both these committees will consist of the Chairman and a combination of the other non-executive Directors.

The Company will ensure, in accordance with Rule 19 of the AIM Rules, that its Directors and applicable employees do not deal in any of the Ordinary Shares during a close period (as defined in the AIM Rules) and will take all reasonable steps to ensure compliance by Directors and applicable employees.

The Company will adopt a share dealing code from Admission.

LOCK IN ARRANGEMENTS

The Shareholders have agreed that they will not (save in certain specific circumstances) dispose of any interest in Ordinary Shares held by them for a period of twelve months following Admission. Further details of these lock-in agreements are set out in paragraphs 8.4 and 8.5 of Part VI of this document. The Placing Shares are not subject to any lock-in agreement.

DIVIDEND POLICY

The Directors are committed to a progressive dividend policy that rewards shareholders adequately, whilst at the same time demonstrating prudent management of the Group's cash resources. The Directors are also committed to a strong growth strategy for the Group, and intend to maintain a balance between reinvesting profit and distributing funds to shareholders. As at the date of this Prospectus, no dividend is forecast in relation to the Ordinary Shares.

FURTHER INFORMATION

Your attention is drawn to the remainder of this document, which provides additional information on the matters discussed above.

PART II

RISK FACTORS

In addition to the other relevant information set out in this document, the following specific risk factors should be considered carefully in evaluating whether to make an investment in the Company. If any of the following risks actually occur, the Group's business, financial condition, results or future operations could be materially adversely affected. In such a case, the price of its shares could decline and investors may lose part or all of their investment. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take you should consult a person authorised under the Financial Services and Markets Act 2000 and/or the Financial Services (Jersey) Law 1998, as amended, who specialises in advising on the acquisition of shares and other securities.

In addition to the usual risks associated with an investment in a business the Directors consider that the factors and risks described below are the most significant and should be carefully considered, together with all other information contained in this document, prior to investing in the Ordinary Shares. It should be noted that the risks described below are not the only risks faced by the Company; there may be additional risks that the Directors currently consider not to be material or of which they are currently unaware.

Possible volatility on the price of the Ordinary Shares

Following Admission, the market price of the Ordinary Shares may be subject to significant fluctuations in response to many factors, including variations in the results of the Group; divergence in financial results from analysts' expectations; changes in earnings estimates by stock market analysts; general economic conditions; other events and factors outside of the Group's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise an investment in the Company than in a company whose shares are quoted on the Official List.

Requirement for further funds

It may be necessary for the Company to raise further funds in the future, which may be subject to the provisions of the Company's Articles by way of the issue of further Ordinary Shares on a non pre-emptive basis which could result in a dilution of the interests of the shareholders at the time of such issue. There can be no guarantee that such a further fundraising would be successful.

Investment risk

Potential investors should be aware that the value of shares can rise or fall and that there may not be proper information available for determining the market value of an investment in the Company at all times. An investment in a share which is traded on AIM, such as the Ordinary Shares, is likely to be difficult to realise and carries a high degree of risk. The ability of an investor to sell Ordinary Shares will depend on there being a willing buyer for them at an acceptable price. Consequently, it might be difficult for an investor to realise his/her investment in the Company and he/she may lose all his/her investment.

Economic, political, judicial, administrative, taxation or other regulatory matters

The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation, other regulatory factors, civil unrest or strikes as well as other unforeseen matters.

Political risk

Following the recent political elections in Ukraine and the subsequent allegations of electoral irregularities there may be a higher likelihood of unrest, strikes, and trade and other sanctions within Ukraine than would normally be the case.

Attraction and retention of key employees

The Group will depend on its executive Directors and other key personnel although the Company has entered into contractual arrangements with these individuals with the aim of securing the services of each of them retention of these services cannot be guaranteed. The loss of the services of any of the executive Directors or other key employees could damage the Group's business.

Equally the ability to attract new employees with the appropriate expertise and skills cannot be guaranteed. The Group may experience difficulties in hiring appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Group.

Competition

The market in which the Group will operate has competitors and there can be no guarantee that the Group will be able to respond to competitive challenges effectively.

Management of growth projections

There can be no guarantee that the Group will achieve the expansion or levels of business anticipated in the future.

Monopoly regulation

Ukraine has legislation to prevent monopolies from adversely affecting markets. The Group's future expansion will need to be in accordance with the current, as well as any future, monopoly legislation, and any change to the current legislation may impact adversely on the Group's future expansion plans. However, the Directors' believe that even following recent rapid growth of Ukrproduct, the Group's proposed expansion plans will not be in breach of the current legislation.

Taxation

The Company is incorporated in, and has been granted "exempt company" status by, the States of Jersey. As a result, it should not be liable to Jersey taxation. The Directors intend to ensure that the Company is managed in such a way, and otherwise undertakes those actions necessary to ensure that it continues to be so treated. The States of Jersey have indicated an intention to replace this exempt company regime by the end of 2008 with a general nil rate of corporate taxation, which it is intended will preserve the existing benefits of the exempt company regime.

It is possible that in future the Group's tax position could change as a result of changes in the law or practice of any relevant taxation authority or any change in the management or conduct of the Group's affairs.

Specific operating risks

The Directors also believe that there exist the following specific principal operating risks for the Group:

1. Cessation or interruption in supply of the milk based raw materials

As a food processor, the Group will be dependent upon the continuing uninterrupted supply of raw milk and milk based raw materials for its operations. While the Directors expect sufficient supplies to be available, there is no guarantee that this will be the case.

2. Increase in prices of the milk based raw materials

In Ukraine, as in many other milk producing economies, there is always the possibility that prices of the milk based raw materials may increase. A rapid and significant increase in prices for the raw milk and raw milk ingredients would have significant commercial implications for the Group, as it is unlikely that the Group would be able to pass the cost of increases on to the final consumer in the same proportion. In this case, it is likely that the Group would experience declining profitability.

3. Failure to innovate

It may be the case in the future that consumer tastes change making some of the products manufactured by Ukrproduct Ukraine less attractive to customers. For example, this change in customer tastes may be driven by a more health conscious approach to eating less fat or other factors. There can be no guarantee that the Group will be able to respond to these issues by producing new, more attractive products.

4. Retail concentration in Ukraine

Ukrproduct sells products either directly to retailers, including supermarkets, grocery shops and restaurants, or to wholesalers for resale to retail outlets. The Group will expect sales to independent retailers and wholesalers to continue to represent a significant portion of its revenues. Its operations and distribution costs could be affected by increasing enlargement and concentration of these entities, particularly as these customers become more sophisticated and attempt to force lower pricing and increased promotional programs.

5. Contamination of raw milk products

Certain infections can be contracted from consuming contaminated milk products, for example, listeria, salmonella and bovis type tuberculosis.

6. Legislation

Recent legislation introduced in Ukraine in August 2004, suggests that the separation of the manufacture and packaging of dairy products may now be prohibited. Ukrproduct Ukraine buys butter from third parties and re-packages it and as result of the new legislation could be required to cease that part of its operation. It is not clear how this legislation applies and clarification as to whether the new legislation applies to re-packaging is being sought, although the Directors believe that dairy products may in future be formally exempted from the legislation.

General

The risks noted above do not necessarily comprise all those potentially faced by the Company and are not intended to be presented in any assumed order of priority. Reference should also be made to the risks noted in the Accountants' Report in Part IV of this document.

PART III

ACCOUNTANTS' REPORT ON UKRPRODUCT GROUP LTD ("THE COMPANY")

The following is the full text of a report on Ukrproduct Group Ltd from Baker Tilly, the Reporting Accountants, to the Directors of Ukrproduct Group Ltd and W.H. Ireland Limited.



BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST

www.bakertilly.co.uk

The Directors
Ukrproduct Group Ltd
26 New Street
St. Helier
Jersey
JE2 3RA

and

The Directors
W.H. Ireland Limited
11 St. James's Square
Manchester
M2 6WH

31 January 2005

Dear Sirs

UKRPRODUCT GROUP LTD ("the Company")

Introduction

We report in connection with the proposed placing of ordinary shares of Ukrproduct Group Ltd ("the Placing") and admission of the ordinary share capital of the Company to trading on AIM and this report has been prepared for inclusion in the admission document dated 31 January 2005 ("the Admission Document").

The Company was incorporated in Jersey on 18 August 2004.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss, and has neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotment of shares described below and the execution of the material contracts referred to in paragraph 8 of Part VI of the Admission Document. Accordingly, no profit and loss account information is presented in this report.

Basis of preparation

The financial information set out below has been extracted from financial records of the Company for the period ended 31 October 2004, no adjustments being considered necessary. No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

Responsibility

The financial records are the responsibility of the directors of the Company. The directors of the Company are also responsible for the contents of the Admission Document dated 31 January 2005 in which this report is included.

It is our responsibility to compile the financial information set out below from the Company's financial records and to make a report in accordance with the requirements of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial records and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Admission Document, a true and fair view of the state of affairs of the Company as at 31 October 2004.

BALANCE SHEET

	As at 31 October 2004 £
Current assets	
Cash in hand	2
	<hr/> <hr/>
Capital and reserves	
Called up share capital (Note 1)	2
	<hr/> <hr/>

Notes to the financial information

1. Share Capital

The Company was incorporated on 18 August 2004 with an authorised share capital of £1,000,000 divided into 1,000,000 ordinary shares of £1 each of which 2 shares were issued, fully paid, on incorporation. On 26 November 2004, the authorised share capital was increased to £5,000,000 by dividing the existing 1,000,000 authorised ordinary shares of £1 into 10,000,000 ordinary shares of 10p and by the creation of 40,000,000 further ordinary shares of 10p each.

	As at 31 October 2004 £
Authorised	
On incorporation and at end of period (1,000,000 Ordinary shares of £1 each)	1,000,000
Called up and fully paid	
On incorporation and at end of period (2 Ordinary shares of £1 each)	2

2. Post Balance Sheet Events

On 8 September 2004, Ukrproduct Group plc, a related company by virtue of common ownership, assigned all rights relating to its “Nash Molochnik” trademark to LinkStar Limited.

On 22 October 2004, Alfa-Broker Limited assigned all rights relating to its “Cyr Galitskiy”, “Ukrproduct.com”, “Narodny Product” and “Vershova Dolika” trademarks to Linkstar Limited. Alfa-Broker is no longer a member of the Operating Group, but is a related party by virtue of common ownership.

On 1 December 2004, the Company entered into a conditional agreement with DDEW plc, a related party by virtue of common ownership, to acquire the entire issued share capital of Dairy Trading Corporation Limited (a company registered in BVI) and LinkStar Limited (a company registered in Cyprus) for a consideration of £1 each. This agreement is conditional, *inter alia*, on Admission.

On 31 January 2005, the Company entered into an agreement with all the shareholders of Ukrproduct Group CJSC (“Ukrproduct”), conditional upon Admission (as defined in the Admission Document) to acquire the whole of the issued share capital of Ukrproduct, the consideration for which is to be satisfied by the allotment and issue of 29,999,980 Ordinary Shares of 10p each, credited as fully paid, in the Company.

3. Consent

We consent to the inclusion of this report in the Admission Document and accept responsibility for this report for the purposes of paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

PART IV

ACCOUNTANTS' REPORT ON THE OPERATING GROUP

The following is the full text of a report on the Operating Group from Baker Tilly, the Reporting Accountants, to the Directors of the Company and W.H. Ireland Limited.



BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST

www.bakertilly.co.uk

The Directors
Ukrproduct Group Ltd
26 New Street
St. Helier
Jersey
JE2 3RA

and

The Directors
W.H. Ireland Limited
11 St. James's Square
Manchester
M2 6WH

31 January 2005

Dear Sirs

COMBINED FINANCIAL INFORMATION ON THE SUBSIDIARY UNDERTAKINGS OF UKRPRODUCT GROUP CJSC ("Ukrproduct")

Introduction

We report in connection with the proposed placing of ordinary shares of Ukrproduct Group Ltd ("the Placing") and admission of the ordinary share capital of the Ukrproduct Group Ltd (the "Company") to trading on AIM and this report has been prepared for inclusion in the admission document dated 31 January 2005 ("the Admission Document").

Ukrproduct and its subsidiary undertakings did not constitute a statutory group during the whole of the period under review. Accordingly it has been necessary to compile combined financial information for the purposes of this report based on the financial statements of the subsidiary undertakings as set out in Note 3b) to the financial information ("Operating Group").

Basis of preparation

The financial information set out below is based on the audited special purpose combined financial statements of the Operating Group for the three years ended 31 December 2003 and six months ended 30 June 2004, after making such adjustments as we consider necessary. The accounts of the Operating Group for the three years ended 31 December 2003 were audited by Moore Stephens who gave qualified reports thereon in respect of their not having attended the physical stock takes as at 31 December 2000, 2001 and 2002. The accounts of the Operating Group for the six months ended 30 June 2004 were audited by IGK Audit Ukraine who gave an

unqualified report thereon. For the purposes of this report, Moore Stephens and IGK Audit Ukraine are collectively referred to as the “Auditors” hereinafter. No audited financial statements have been prepared for the Operating Group in respect of any subsequent period.

Responsibility

The special purpose combined financial statements on which the financial information within this report is based are the responsibility of the directors of Ukrproduct who approved their issue. The directors of the Company are responsible for the contents of the Admission Document dated 31 January 2005 in which this report is included.

It is our responsibility to compile the financial information set out below from the financial records and to make a report in accordance with paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

Except as discussed in the following paragraph we conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously recorded by the Auditors who audited the financial statements underlying the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Operating Group’s circumstances, consistently applied and adequately disclosed.

Neither we nor the Auditors observed the physical counting of inventories as at 31 December 2000, 2001 or 2002 since those dates were prior to our respective appointments as reporting accountants and Auditors and the Operating Group was not required to be and had not previously been audited. We were unable to satisfy ourselves as to the inventories quantities at those dates by other audit procedures. The physical counts for the purposes of the Operating Group’s accounts for the year ended 31 December 2003 were observed by Moore Stephens. Neither we nor the Auditors observed the physical counting of inventories as at 30 June 2004. Alternative audit procedures have been applied to provide sufficient audit evidence to enable us to form an opinion as to the reasonableness of stock quantities as at that date.

Other than in this respect we planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Qualified opinion arising from limitation in scope

Except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of inventories and satisfy ourselves as to the balances of inventories referred to above, in our opinion the financial information set out below shows, for the purpose of the Admission Document, a true and fair view of the profits and cash flow of the Operating Group for the three years ended 31 December 2003 and the six months ended 30 June 2004 and of the financial position of the Operating Group at the end of each of the periods.

INCOME STATEMENTS

	Notes	Year ended 31 December			Six months ended
		2001 £'000	2002 £'000	2003 £'000	30 June 2004 £'000
Revenues	5	7,293	8,647	17,597	11,025
Costs of sales		(6,793)	(7,546)	(15,222)	(9,319)
Gross profit		500	1,101	2,375	1,706
General and administrative expenses		(191)	(427)	(690)	(354)
Selling and distribution expenses		(126)	(272)	(399)	(415)
Other expenses		(38)	(133)	(180)	(72)
Income from waiver of debt	28	-	-	250	-
Profit before interest and taxation	5	145	269	1,356	865
Interest payable and similar charges		(82)	(112)	(94)	(112)
Interest receivable and similar income		-	-	-	2
Profit before taxation		63	157	1,262	755
Income tax expense	8	(19)	(3)	(146)	(110)
Profit after taxation		44	154	1,116	645
Attributable to:					
Owners		12	171	1,111	638
Minority interest		32	(17)	5	7
		44	154	1,116	645

Revenues and operating profit all derive from continuing operations.

BALANCE SHEETS

	Notes	As at 31 December			As at
		2001 £'000	2002 £'000	2003 £'000	30 June 2004 £'000
Non-current assets					
Property, plant and equipment	9	293	382	1,017	4,676
Intangible assets	10	-	-	-	2
Investments	11	1	99	89	87
		<u>294</u>	<u>481</u>	<u>1,106</u>	<u>4,765</u>
Current assets					
Inventories	13	510	568	1,607	1,754
Loans issued	14	-	119	15	215
Receivables and prepayments	15	702	1,073	2,143	1,900
Cash and cash at equivalents	12	75	48	132	215
		<u>1,287</u>	<u>1,808</u>	<u>3,897</u>	<u>4,084</u>
Current liabilities					
Bank loans and overdrafts	16	(698)	(406)	(1,008)	(482)
Trade and other payables	17	(336)	(1,100)	(1,938)	(1,617)
Promissory notes	18	-	-	(3)	(19)
Current income tax liabilities		-	(5)	(119)	(173)
		<u>(1,034)</u>	<u>(1,511)</u>	<u>(3,068)</u>	<u>(2,291)</u>
Net current assets		<u>253</u>	<u>297</u>	<u>829</u>	<u>1,793</u>
Total assets less current liabilities		<u>547</u>	<u>778</u>	<u>1,935</u>	<u>6,558</u>
Non-current liabilities					
Long term loans		-	-	-	(189)
Bonds	19	-	-	(302)	(1,030)
Promissory notes	18	(65)	(95)	(22)	(21)
Deferred income tax liabilities	8	(17)	-	-	(757)
		<u>465</u>	<u>683</u>	<u>1,611</u>	<u>4,561</u>
Capital and reserves attributable to equity holders					
Invested capital	20	67	309	1,104	16,351
Merger reserve		-	-	-	(15,273)
Revaluation reserve		-	-	-	2,208
Retained earnings		156	256	439	1,144
		<u>223</u>	<u>565</u>	<u>1,543</u>	<u>4,430</u>
Minority interest	22	<u>242</u>	<u>118</u>	<u>68</u>	<u>131</u>
Total equity		<u><u>465</u></u>	<u><u>683</u></u>	<u><u>1,611</u></u>	<u><u>4,561</u></u>

CASH FLOW STATEMENTS

	Notes	Year ended 31 December			Six months ended
		2001	2002	2003	30 June
		£'000	£'000	£'000	2004 £'000
Cash flows from operating activities					
Net profit before taxation		63	157	1,262	755
Adjustments for:					
Depreciation		20	35	62	176
Interest expense		82	112	94	112
Income from waiver of debt		-	-	(250)	-
		<u>165</u>	<u>304</u>	<u>1,168</u>	<u>1,043</u>
Increase in inventories		(270)	(58)	(1,039)	(184)
(Increase)/ decrease in trade and other receivables		(582)	(377)	(1,070)	264
Increase/(decrease) in trade and other payables		271	739	839	(394)
		<u>(416)</u>	<u>608</u>	<u>(102)</u>	<u>729</u>
Cash (used by)/generated from operations		(416)	608	(102)	729
Interest paid		(82)	(112)	(94)	(112)
Income tax paid/(refunded)		5	(8)	(32)	(43)
		<u>(493)</u>	<u>488</u>	<u>(228)</u>	<u>574</u>
Net cash (used in)/generated by operating activities					
Cash flows from investing activities					
Purchase of property, plant and equipment		(88)	(220)	(733)	(724)
Purchase of investments		-	-	-	-
Proceeds from sale of property, plant and equipment		13	31	31	4
Loans (advanced)/repaid		-	(119)	104	(250)
		<u>(75)</u>	<u>(308)</u>	<u>(598)</u>	<u>(970)</u>
Net cash used in investing activities					
Cash flows from financing activities					
Net proceeds from long term borrowing	25	-	-	-	289
Proceeds from issue of bonds		-	-	303	684
Proceeds from issue of shares/additional capital		4	229	1,075	-
Distribution of profit		-	(136)	(914)	-
Net proceeds from issue of promissory notes	25	65	30	(70)	15
Net proceeds from short term borrowing	25	542	(293)	602	(502)
		<u>611</u>	<u>(170)</u>	<u>996</u>	<u>486</u>
Net cash generated by/(used in) financing activities					
Effect of exchange rate changes and restatements on cash and cash equivalents					
		14	(37)	(86)	(7)
Net increase/(decrease) in cash and cash equivalents					
		<u>57</u>	<u>(27)</u>	<u>84</u>	<u>83</u>
Cash and cash equivalents at the beginning of the year		18	75	48	132
		<u>75</u>	<u>48</u>	<u>132</u>	<u>215</u>
Cash and cash equivalents at the end of the period	12	<u>75</u>	<u>48</u>	<u>132</u>	<u>215</u>

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Invested capital £'000	Merger reserve £'000	Re- valuation reserve £'000	Retained earnings £'000	Share- holders' equity £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2001	63	-	-	139	202	202	404
Repayment of shares (note 18)	(4)	-	-	-	(4)	-	(4)
Issue of shares	1	-	-	-	1	-	1
Net profit for the year	-	-	-	12	12	32	44
Exchange differences on translation to the presentation currency (note 3c)	7	-	-	5	12	8	20
Balance at 1 January 2002	67	-	-	156	223	242	465
Issue of shares	250	-	-	-	250	-	250
Net profit for the year	-	-	-	171	171	(17)	154
Reduction in minority interest on issue of new shares	-	-	-	85	85	(85)	-
Distribution of profit	-	-	-	(136)	(136)	-	(136)
Exchange differences on translation to the presentation currency (note 3c)	(8)	-	-	(20)	(28)	(22)	(50)
Balance at 1 January 2003	309	-	-	256	565	118	683
Issue of shares	845	-	-	-	845	-	845
Purchase of treasury shares (note 18)	(20)	-	-	-	(20)	-	(20)
Net profit for the year	-	-	-	1,111	1,111	5	1,116
Reduction in minority interest on issue of new shares	-	-	-	42	42	(42)	-
Distribution of profit (note 21)	-	-	-	(913)	(913)	-	(913)
Exchange differences on translation to the presentation currency (note 3c)	(30)	-	-	(57)	(87)	(13)	(100)
Balance at 1 January 2004	1,104	-	-	439	1,543	68	1,611
Gain on revaluation of fixed assets	-	-	3,102	-	3,102	77	3,179
Deferred income tax on gain on revaluation	-	-	(739)	-	(739)	(18)	(757)
Issue of shares	1	-	-	-	1	-	1
Purchase of treasury shares (note 18)	(1)	-	-	-	(1)	-	(1)
Issued on acquisition of Operating Group	15,273	-	-	-	-	-	15,273
Merger reserve arising an acquisition of Operating Group	-	(15,273)	-	-	-	-	(15,273)
Net profit for the period	-	-	-	638	638	7	645
Depreciation on revaluation of fixed assets	-	-	(71)	73	2	(2)	-
Exchange differences on translation to the presentation currency (note 3c)	(26)	-	(84)	(6)	(116)	(1)	(117)
Balance at 30 June 2004	<u>16,351</u>	<u>(15,273)</u>	<u>2,208</u>	<u>1,144</u>	<u>4,430</u>	<u>131</u>	<u>4,561</u>

The availability of the Operating Group's retained earnings for distribution to shareholders is determined by the Articles of Association of the individual companies within the Operating Group and by relevant legal and fiscal regulations and may not correspond to the figures presented above.

NOTES TO THE FINANCIAL INFORMATION

1. Group and Principal Activities

For the purposes of this financial information the term the “Operating Group” has been taken to indicate the companies listed in note 3(b). All of these companies are under the control of the same ultimate beneficial owners (Sergey Evlanchik and Alexander Slipchuk) and have effectively operated as a group under common management for a number of years although they did not comprise a statutory group as they had not been linked by a common parent. Following the establishment of a new holding company on 18 May 2004, the companies comprising the Operating Group have now been brought together to create a formal group under the ultimate control of this new holding company. The respective interests of the current owners of the Operating Group are unchanged.

The Operating Group’s main activity is to produce and supply dairy products (butter and cheese) to wholesale and retail outlets in Ukraine. It also produces and exports dried milk powder to the markets of Japan, Turkey, Russia and other countries. The Group is not involved in the retailing of its products.

The Operating Group’s production facilities and management are based in Ukraine. The head office is located in Kyiv. The Operating Group has its own distribution network in Ukraine. The average number of employees of the Operating Group during the six months ended 30 June 2004 was 1,245 people and for the year ended 31 December 2003 was 683 people (2002 - 429 people, 2001 - 231 people).

2. Operating Environment of the Group

The main activities of the Operating Group are concentrated in Ukraine, a country which continues to display characteristics of an emerging market.

The prospects for future economic stability in Ukraine are largely dependent upon the effectiveness of the economic measures and reforms undertaken by the government, together with legal, regulatory and political developments, which are beyond the control of the Group.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the combined financial information are set out below:

a) Basis of Presentation

This financial information is based on the audited special purpose combined financial statements of the Operating Group which have been prepared by combining the historical financial information for each of the companies that comprise the Operating Group from the accounting records of those companies. The financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board.

The majority of companies making up the Operating Group maintain their accounting records in accordance with Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as we consider necessary in order to comply with IFRS. Accounting records of the Operating Group are maintained in Ukrainian hryvnas (“UAH”). The hryvna has also been adopted as the measurement currency for the purpose of the special purpose combined financial statements (see note 3c).

The financial information has been translated into British pounds sterling at the rates given in note 4(r).

The combined financial information has been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Operating Group’s accounting policies.

Early adoption of standards

In 2003, the Operating Group early adopted the IFRS below, which are relevant to its operations. The financial information has been amended as required, in accordance with the relevant requirements.

IAS	1	(revised 2003)	Presentation of Financial Statements
IAS	2	(revised 2003)	Inventories
IAS	8	(revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS	10	(revised 2003)	Events after the Balance Sheet Date
IAS	16	(revised 2003)	Property, Plant and Equipment
IAS	17	(revised 2003)	Leases
IAS	21	(revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS	24	(revised 2003)	Related Party Disclosures
IAS	27	(revised 2003)	Consolidated and Separate Financial Statements
IAS	28	(revised 2003)	Investments in Associates
IAS	32	(revised 2003)	Financial Instruments: Disclosure and Presentation
IAS	33	(revised 2003)	Earnings per Share
IAS	39	(revised 2004)	Financial Instruments: Recognition and Measurement
IFRS	3	(issued 2004)	Business Combinations
IAS	36	(revised 2004)	Impairment of Assets
IAS	38	(revised 2004)	Intangible Assets

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 32 and 33 (all revised 2003) did not result in substantial changes to the Operating Group's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures.
- IAS 2, 8, 10, 16, 17, 27, 28, 32 and 33 had no material effect on the Operating Group's policies.
- IAS 21 (revised 2003) had no material effect on the Operating Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The majority of the Operating Group entities have the same functional currency as their measurement currency.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

The early adoption of IAS 39 (revised 2004) has resulted in a change to the accounting policy relating to the classification of financial assets at fair value through profit or loss. The Operating Group has applied the exemptions afforded by IFRS1 from the requirement to re-state comparative information for 2001 and 2002 for IAS 39 and IAS 32, and has applied previously applicable generally accepted accounting principles to those years.

The early adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. However, there has been no goodwill arising as subsidiaries accounted for as acquisitions were so acquired on incorporation.

In accordance with the provisions of IFRS 3:

- The Operating Group ceased amortisation of goodwill from 1 January 2003
- From the year ended 31 December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The Operating Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustments resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Operating Group require retrospective application other than:

- IAS 16 - the exchange of property, plant and equipment is accounted at fair value prospectively
- IAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations.
- IFRS 3 - prospectively after 31 March 2004.
- IAS 39 requires simultaneous adoption with IAS 32.
- IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

b) Principles of combination and consolidation

The combined financial information includes the results of the companies set out in the table below. As described in note 1 the Operating Group is comprised of a number of companies under common management and ultimate ownership but not linked by a formal ownership structure or a single common parent until 18 May 2004. The special purpose combined financial information has been prepared in order to present the combined results and balances that would have been shown had the Operating Group been under the control of a single common parent.

Where group companies are formally owned by another group company, they have been consolidated to the highest possible level using the acquisition method, in which share capital of the entity is eliminated against the investment recorded in the parent. As such, the Operating Group companies have been owned from the date of their formation and consideration issued for the investment equalled share capital, goodwill does not arise on acquisition other than incidentally.

The combination of companies under common ownership but not linked by a formal ownership structure has been based on the pooling of interests ('merger method') described in IAS 22. In applying the method, financial statement items for each group company are combined as if they had been combined from the earliest period. The result being a combination of all group companies' share capital and reserves in addition to all assets and liabilities. All intra-Operating Group transactions and balances are eliminated on combination. Business combinations of entities under common control are outside the scope of IFRS3 and so the early adoption of that standard does not affect this treatment.

Following the formal acquisition of the Operating Group companies in May 2004, a combined balance sheet has been prepared as at 30 June 2004 including Ukrproduct. The business combination comprising a number of businesses under common control is outside the scope of IFRS3: Business Combinations and the balance sheet has been prepared using the pooling of interests method.

The results and balances of the following organisations have been combined:

	Country of incorporation	Deemed group holding	Method of combination	
			2004	2003
Molochnik OJSC	Ukraine	95.2%	Merger method	Merger method
Ukrprodexpo SC	Ukraine	100%	Merger method	Merger method
Starokonstantinovskiy Molochniy Zavod SC	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy LLC	Ukraine	100%	Merger method	Merger method
Togoviy Dim Maslayana SC *	Ukraine	100%	Acquisition method	Acquisition method
Togoviy Dim Milko SC *	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsresursy Dnipro SC*	Ukraine	100%	Acquisition method	Acquisition method
Agrospetsrsursy Lviv SC*	Ukraine	100%	Acquisition method	Acquisition method
Starkon-Moloko LLC	Ukraine	100%	Merger method	Merger method
Dairy Investment Group Inc.	USA	100%	Merger method	Merger method
Dairy Trading Corporation Limited	BVI	100%	Merger method	Merger method
Alfa-Broker Ltd	UK	100%	Merger method	Merger method
Intermilk SC	Ukraine	100%	Acquisition method	Merger method
Ukrevroprodukt SC	Ukraine	100%	Acquisition method	Merger method
Agrospetsresursy Zhytomyr SC*	Ukraine	100%	Acquisition method	n/a
Ukrproduct- Kharkov SC*	Ukraine	100%	Acquisition method	n/a
Nash Molochnik Private Enterprise SC*	Ukraine	100%	Acquisition method	n/a

* Subsidiaries of Agrospetsresursy LLC, the Operating Group's specialised distribution companies (also refer to note 6 for additional Agrospetsresursy subsidiaries recorded at cost).

Intermilk SC is in the process of solvent liquidation.

On 18 June 2004, the business and assets and liabilities of Dairy Investment Group Inc. were transferred to Dairy Trading Corporation Limited. Dairy Investment Group Inc. is not included as part of the Group going forward. Dairy Trading Corporation Limited is to be acquired by the Company. However, it has been necessary to incorporate those companies into the special purpose combined financial information to provide the combined results for the full period under review.

Between 30 June 2004 and 31 January 2005 Alfa-Broker Ltd transferred or undertook to transfer its principal business and assets to LinkStar Limited, a company registered in Cyprus. Similarly, Alfa-Broker Ltd is not to be included as part of the Group going forward. It has therefore been necessary to include the results of Alfa-broker Limited in the combined financial information in order to provide the combined results for the full period under review. LinkStar Limited is to be acquired by the Company.

c) Translation from measurement to presentation currency and adoption of SIC 30

Management has considered what would be the most appropriate measurement and presentation 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 Operating Group operates. Consequently the Ukrainian hryvna is the most appropriate measurement currency for the Group;
- (ii) the Operating Group should use British pounds sterling as the presentation currency for its IFRS financial statements.

Consequently, management has determined to use 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 closing rate existing at the balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the balance sheet date.
- (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 an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the previous balance sheet date.

- (iii) all exchange differences resulting from the application of the translation methods described above are recognised directly in equity.

Actual exchange rates applied in the translation are detailed in Note 3(s) below.

(d) Opening balances

The period 1 January 2001 to 31 December 2001 is the first period for which the Operating Group has prepared special purpose financial statements. The Operating Group has applied the transitional provisions of IFRS 1. As permitted under IFRS 1 closing balances for fixed asset cost and depreciation as at 31 December 2000 recorded in the Ukrainian statutory financial statements of the companies that make up the Operating Group have been taken as deemed opening depreciated historical cost figures as at 1 January 2001 for the purposes of these financial statements. Management believes that the use of figures based on Ukrainian statutory accounting rules does not result in a significant deviation from the figures that would have been arrived at had figures been produced using depreciated historical cost and the provisions of IAS 29.

(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 that are different from those of segments operating in other economic environments.

(f) Property, plant and equipment

As described in note 3(d) figures calculated using Ukrainian statutory accounting rules, have been adopted as deemed depreciated historical cost for property, plant and equipment as at 1 January 2001. Subsequent additions have been recorded at cost.

With effect from 1 January 2004, the Operating Group adopted the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets. 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 Operating Group. In accordance with the provisions of that standard, the revaluation model has not been applied retrospectively.

All classes of assets as at 1 January 2004 were revalued as at that date by an independent valuer on a depreciated replacement cost basis. Management believe that the carrying value of all additions since 1 January 2004 is not materially different to fair value.

Depreciation is applied to all items of property, plant and equipment with the exception of land. Depreciation is calculated on the reducing balance method using the following annual rates:

Buildings	5%
Plant and machinery	15%
Equipment and motor vehicles	25%

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 Operating Group's material costs incurred. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to the relevant fixed asset category and subsequently subjected to the applicable depreciation rates from the time the asset is completed and ready for use.

(h) Intangible assets - computer software

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 (3 years).

(i) Investments

The Operating Group has investments in the equity of Ukrainian companies including investments representing more than 50% of the share capital of the investee company. Other than as referred to under (b) above, where such companies are not expected to become subsidiaries of the proposed holding company, they have been excluded from the combination and are treated as investments.

Investments are carried at fair value which is generally taken to be market value. Securities, for which there is no readily attainable market value or those securities for which management has determined that the available quotation does not depict the security's true market value are carried at fair value as determined by management.

(j) 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 goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

(k) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Operating Group will not be able to collect all amounts due according to the original terms of receivables.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. 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) Revenue and expense recognition

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Operating 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.

(n) Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. The statutory accounting reports of the companies within the Operating Group are the basis for profit distribution and other appropriations. No formal dividends were declared for the years ending 31 December 2001, 2002 and 2003 however, as set out in note 20 a distribution of profit took place.

(o) Provisions

Provisions for environment restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amounts has been reliably estimated. Restructuring provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(p) Revenue recognition

Revenue recognition for the fair value for the sale of goods and services, net of value added tax, rebates and discounts and after eliminated sales with the Operating Group, is as follows:

(i) *Sales of goods - own production* Sales of goods are recognised when an Operating Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. (ii) *Sales of goods - third parties* Sales of goods are recognised when an Operating Group entity sells a product to the customer. (iii) *Sales of services* Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. (iv) *Interest income* Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Operating Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash collected or on a cost-recovery basis as conditions warrant.

(q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(r) 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 profit and loss account 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. 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.

(s) Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currency are translated into Ukrainian 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 profit and loss account as foreign exchange translation gains less losses. As at 30 June 2004 the principal rate of exchange used for translating foreign currency balances was US\$1 = UAH 5.32. As at 31 December 2003 the principal rate of exchange used for translating foreign currency balances was US\$1 = UAH 5.48 (2002:US\$= UAH 5.50, 2001: US\$ = UAH 5.36).

Exchange restrictions and controls exist relating to converting Ukrainian hryvna into other currencies. At present, the Ukrainian hryvna is not a convertible currency outside of Ukraine.

Income and expense figures have been converted to British pounds for presentation purposes at an average rate of £1 = UAH 9.70 for the six months ended 30 June 2004 and £1 = UAH 8.76 for the year ended 31 December 2003 (2002: £1 = UAH 8.03, 2001: £1 = UAH 7.72). Assets, liabilities and equity items have been converted to pounds for presentation purposes at a closing rate of £1 = UAH 9.69 for the six months ended 30 June 2004 and £1 = UAH 9.47 for the year ended 31 December 2003 (2002: £1 = UAH 8.54, 2001: £1 = UAH 7.67).

(t) Pension costs

The Operating Group contributed to the Ukrainian state pension scheme, social insurance and employment funds in respect of its employees. The Operating Group’s pension scheme contributions are expensed as incurred. The contributions are included in staff costs. The Operating Group has no other liabilities in respect of pensions or employee retirement benefits.

(u) Financial instruments

The carrying amounts of the Operating Group's financial assets and liabilities (comprising investments, bank and cash balances, trade and other debtors, trade and other creditors and short and long-term borrowings) approximate to their fair values at the date of the transaction. Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value.

(v) Borrowing Costs

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

4. Financial risk factors

The Operating Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Operating Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Operating Group's financial performance.

Risk management is carried out by the Operating Group Treasurer under policies approved by the board of directors. The Operating Group Treasurer identifies and evaluates financial risks in close co-operation with the Operating Group's operating units. The management board provides broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

Foreign exchange risk

Although the Operating Group is an international operator, the management believe that the foreign exchange risk is minimal at present and is likely to remain so in the future. The Operating Group's international operations consist primarily of the export of dried milk powder to the various markets around the world. The primary currency for export sales is the US dollar. The Operating Group's established corporate policy towards hedging the potential foreign exchange risk is to require the customers to pay for the export shipments of the dried milk powder in full and in advance (from one to two months). The Group's export operations have never employed any other payment methods as a matter of corporate principle, and this is expected to continue in the future. Similarly, the Operating Group has never been engaged in forward transactions and does not expect to conduct these transactions in the future. The Directors believe that these policies effectively eliminate the foreign exchange risk. The Operating Group's export-related obligations in Ukraine, such as payments for raw milk and packaging materials, are all entirely hryvna (UAH) - denominated. The hryvna/US dollar exchange rate has been reasonably stable in recent years, and given the small depreciation of hryvna observed during the recent months of 2004 (July-December), the Directors have no reason to believe that this is likely to change in the future.

Price risk

The Operating Group is exposed to commodity price risk for dried milk powder. The price for this product is predominately determined by the world market and the activities of large international trading companies in this market. There is always a risk that the prevailing world marketing price may be insufficient to cover the production costs for dried milk powder. Against such a risk, the Group recognises that there is no effective financial hedge, thus the major instrument employed in management of the price risk is the tight control of the operating costs.

Credit risk

The Operating Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products both in Ukraine and abroad are made to customers with an appropriate credit history.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Operating Group's Treasurer aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest-rate risk

As the Operating Group has no significant interest-bearing assets, the Operating Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Operating Group's interest-rate risk arises from medium to long-term borrowings. Potentially, borrowings issued at variable rates expose the Operating Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Operating Group to fair value interest-rate risk. Operating Group policy is to maintain at least 80% of its borrowings in fixed rate instruments. At 30 June 2004, almost all of borrowings were at fixed rates.

5. Segmental analysis

The Directors believe that during 2001 and 2002 the Operating Group had only one operating segment - dairy products. This opinion is based on the fact that during these periods, performance of the Operating Group (and any other dairy operator in Ukraine) was determined by the dynamic of the Ukrainian dairy market as a whole, to a great extent independent of the specific product lines of each producer. In particular, the market dynamic was defined by such factors as serious one-off depletion of the stock of raw milk and supplies in the Ukrainian market, the corresponding increase in the prices for all dairy supplies, and the subsequent financial strain of the entire dairy sector in Ukraine. Under those circumstances, a majority of the Ukrainian producers, the Operating Group inclusive, did not differentiate between the product lines. Nevertheless, where it has been possible to provide the information on a segmental basis, this is given below.

After this period, the shareholders of the Operating Group put a particular emphasis on enhancing the vertical integration of the Operating Group. This emphasis necessitated separation of the product lines into the distinguishable and analysable segments, in order to be able to identify the individual profitability of each segment. Therefore, from 2003, the Operating Group has been gradually transforming its management reporting and control systems to reflect the segmental information to the extent required by its operating activities and its intention to adopt International Financial Reporting Standards (IFRS). Ukrainian Accounting Standards do not require the production of the Segmental Information to the same level as that required by IFRS.

Primary reporting format - by business segment

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Sales to external customers				
Butter	2,552	3,805	7,743	4,043
Cheese	3,428	3,027	5,807	4,387
Dried milk powder	1,021	1,556	3,167	1,777
	<hr/>	<hr/>	<hr/>	<hr/>
Total dairy	7,001	8,388	16,717	10,207
Services	31	86	64	50
Other	261	173	816	768
	<hr/>	<hr/>	<hr/>	<hr/>
	7,293	8,647	17,597	11,025
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

There were no inter-segment sales in the period

5. Segmental analysis continued

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Profit before depreciation, interest and taxation				
Butter	50	182	501	348
Cheese	254	412	933	806
Dried milk powder	56	219	466	298
Total dairy	360	813	1,900	1,452
Services	-	(1)	-	1
Other	(4)	(2)	(7)	-
	356	810	1,893	1,453
Unallocated corporate expenses	(191)	(506)	(725)	(412)
Unallocated income from waiver of debt	-	-	250	-
	165	304	1,418	1,041
Depreciation				
Butter			22	54
Cheese			31	98
Dried milk			9	24
Total dairy			62	176
Unallocated depreciation	20	35	-	-
	20	35	62	176

Depreciation in the period ending 30 June 2004 includes £73,000 arising from the revaluation of assets at the beginning of that period.

Segmental information on depreciation was not prepared for 2001 and 2002.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Profit before interest and taxation				
Butter	50	182	479	294
Cheese	254	412	902	708
Dried milk	56	219	457	274
Total dairy	360	570	1,838	1,276
Services	-	(1)	-	1
Other	(4)	(2)	(7)	-
	356	567	1,831	1,277
Unallocated corporate expenses	(191)	(506)	(725)	(412)
Unallocated depreciation	(20)	(35)	-	-
Unallocated income from waiver of debt	-	-	250	-
	145	269	1,356	865

5. Segmental analysis continued

Other information	As at 31 December 2003 £'000	As at 30 June 2004 £'000
Segment assets		
Butter	1,225	2,103
Cheese	1,996	4,028
Dried milk powder	170	930
	<hr/>	<hr/>
Total dairy	3,391	7,061
Services	-	-
Other	401	701
	<hr/>	<hr/>
Unallocated corporate assets	3,792	7,762
	1,211	1,137
	<hr/>	<hr/>
Consolidated total assets	5,003	8,899
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Butter	931	500
Cheese	571	1,298
Dried milk powder	452	204
	<hr/>	<hr/>
Total dairy	1,954	2,002
Services	-	-
Other	51	85
	<hr/>	<hr/>
Unallocated corporate liabilities	2,005	2,087
Unallocated deferred tax	1,387	1,494
	-	757
	<hr/>	<hr/>
Consolidated total liabilities	3,392	4,338
	<hr/> <hr/>	<hr/> <hr/>

Segmental information on assets and liabilities was not prepared for 2001 or 2002.

5. Segmental analysis continued

	Year ended 31 December 2003 £'000	Six months ended 30 June 2004 £'000
Capital expenditure		
Butter	184	170
Cheese	520	498
Dried milk	60	79
	<hr/>	<hr/>
Total dairy	764	747
Services	-	-
Other	3	-
	<hr/>	<hr/>
	767	747
Unallocated capital expenditure	-	-
	<hr/>	<hr/>
	767	747
	<hr/>	<hr/>

Segmental information on capital expenditure was not prepared for 2001 and 2002.

Secondary reporting format - geographical segments

	Year ended 31 December 2002 £'000	Year ended 31 December 2003 £'000	Six months ended 30 June 2004 £'000
Sales by market			
Ukraine	7,254	14,565	8,324
Denmark	-	938	967
Russia	206	412	343
Bulgaria	68	245	106
Holland	147	684	209
Japan	439	91	-
Other countries	807	662	1,076
	<hr/>	<hr/>	<hr/>
	8,647	17,597	11,025
	<hr/>	<hr/>	<hr/>

Sales analysis by geographical market was not prepared for 2001.

The majority of the Operating Group's recognised assets and liabilities are in Ukraine.

6. Expenses by nature

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Depreciation	20	35	62	176
Changes in inventories of finished goods and work in progress	270	58	1,039	184
Raw materials and consumables used	6,437	7,257	13,750	8,567
Employee benefit costs	120	275	585	592
Other expenses	301	753	1,055	639
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cost of goods sold, marketing and distribution costs and administrative expenses	7,148	8,378	16,491	10,158
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Employee benefit expense

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Wages and salaries	89	205	435	440
Social security costs	31	70	150	152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	120	275	585	592
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Remuneration of key personnel

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Directors				
Salaries	-	7	15	10
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other key personnel				
Salaries	7	16	27	22
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The directors are those persons remunerated by the Operating Group who are to become directors of Ukproduct Group Ltd. Other than salaries, no benefits in kind were paid to the directors or key management personnel.

8. Taxation

Income tax comprised the following:

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Current tax charge - Ukraine	2	20	104	74
Current tax charge - UK	-	-	42	37
Deferred tax relating to the origination and reversal of temporary differences	17	(17)	-	(1)
Income tax charge for the year	19	3	146	110

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 25% (2003: 25%).

Reconciliation of tax charge	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Profit before tax	63	157	1,262	755
Tax calculated at domestic tax rates applicable to profits in the relevant countries	19	47	325	180
Net income not subject to tax and expenses not deductible for tax purposes	-	(44)	(179)	(70)
Tax charge	19	3	146	110

The weighted average applicable tax rate was 23.9% (2003: 24.7%, 2002: 30.0%, 2001: 30.0%). The charge is due to the changes in profitability of the companies comprising the Operating Group in the respective countries.

8. Taxation continued

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Deferred tax liability at beginning of the period	-	17	-	-
Deferred tax recognised in profit and loss account during the year	17	(17)	-	-
Deferred income tax arising on the revaluation of property, plant and equipment	-	-	-	757
Deferred tax liability at end of the period	17	-	-	757

Ukraine currently has a system of taxation broadly similar in scope to those of the developed market economies. There are a number of laws related to various taxes imposed by both central and regional governmental authorities. Although laws related to these taxes have not been in force for significant periods, the practice of taxation and implementation of regulations are well established, documented with a sufficient degree of clarity and adhered to by the taxpayers. Nevertheless, there remain certain risks in relation to the Ukrainian tax system: few court precedents with regard to tax related issues exist; different opinions regarding legal interpretation may arise both among and within government ministries and regulatory agencies; tax compliance practice is subject to review and investigation by a number of authorities with overlapping responsibilities.

Generally, tax declarations remain subject to inspection for an indefinite period. In practice, however, the risk of retroactive tax assessments and penalty charges decreases significantly after three years. The fact that a year has been reviewed does not preclude the Ukrainian tax service performing a subsequent inspection of that year.

The Operating Group's management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains those relevant authorities could take different positions with regard to interpretive issues.

9. Property, plant and equipment

	Assets under construction £'000	Land and buildings £'000	Plant and machinery £'000	Vehicles and equipment £'000	Total £'000
Cost or valuation					
At 1 January 2001	-	296	82	49	427
Additions/transfers from assets under construction	73	14	53	40	180
Disposals/transfers from assets under construction	(54)	-	(41)	(11)	(106)
Exchange differences on translation to the presentation currency	-	16	4	3	23
	-----	-----	-----	-----	-----
At 31 December 2001	19	326	98	81	524
Additions/transfers from assets under construction	268	97	43	12	420
Disposals/transfers from assets under construction	(234)		(19)	(22)	(275)
Exchange differences on translation to the presentation currency	(1)	(32)	(10)	(9)	(52)
	-----	-----	-----	-----	-----
At 31 December 2002	52	391	112	62	617
Additions/transfers from assets under construction	(7)	73	355	311	732
Disposals/transfers from assets under construction	-	(14)	(11)	(18)	(43)
Exchange differences on translation to the presentation currency	(5)	(38)	(17)	(8)	(68)
	-----	-----	-----	-----	-----
At 31 December 2003	40	412	439	347	1,238
Revaluation	289	4,094	578	191	5,152
Additions/transfers from assets under construction	1,176	56	102	415	1,749
Disposals/transfers from assets under construction	(568)	(423)	(1)	(19)	(1,011)
Exchange differences on translation to the presentation currency	(7)	(103)	(23)	(12)	(145)
	-----	-----	-----	-----	-----
At 30 June 2004	930	4,036	1,095	922	6,983
	-----	-----	-----	-----	-----

9. Property, plant and equipment continued

Accumulated depreciation	Assets under construction £'000	Land and buildings £'000	Plant and machinery £'000	Vehicles and equipment £'000	Total £'000
At 1 January 2001	-	114	50	39	203
Depreciation charge	-	9	9	4	22
Disposals	-	-	(2)	(3)	(5)
Exchange differences on translation to the presentation currency	-	6	3	2	11
At 31 December 2001	-	129	60	42	231
Depreciation charge	-	15	18	2	35
Disposals	-	-	(2)	(6)	(8)
Exchange differences on translation to the presentation currency	-	(13)	(6)	(4)	(23)
At 31 December 2002	-	131	70	34	235
Depreciation charge	-	19	11	32	62
Disposals	-	-	(10)	(2)	(12)
Exchange differences on translation to the presentation currency	-	(15)	(21)	(28)	(64)
At 31 December 2003	-	135	50	36	221
Revaluation	-	1,346	478	149	1,973
Depreciation charge	-	67	36	73	176
Disposals	-	-	-	(13)	(13)
Exchange differences on translation to the presentation currency	-	(34)	(12)	(4)	(50)
At 30 June 2004	-	1,514	552	241	2,307
Net book amount at 30 June 2004	930	2,522	543	681	4,676
Net book amount at 31 December 2003	40	277	389	311	1,017
Net book amount at 31 December 2002	52	260	42	28	382
Net book amount at 31 December 2001	19	197	38	39	293

9. Property, plant and equipment continued

The carrying values of assets based on cost were as follows:

	Assets under construction £'000	Land and buildings £'000	Plant and machinery £'000	Vehicles and equipment £'000	Total £'000
Cost at 30 June 2004	648	416	532	746	2,342
Accumulated depreciation at 30 June 2004	-	158	72	82	312
Net book amount at 30 June 2004	648	258	460	664	2,030
Net book amount at 31 December 2003	40	277	389	311	1,017
Net book amount at 31 December 2002	52	260	42	28	382
Net book amount at 31 December 2001	19	197	38	39	293

Fixed assets with a net book value of £243,269 as at 30 June 2004 (£44,000 at 31 December 2003) were pledged as collateral for loans.

The Operating Group obtained an estimated market value of all assets as at 1 January 2004 from an independent professional valuer on a depreciated replacement cost basis. The market valuation of the fixed assets of the Group was £4.2 million and the revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity.

10. Intangible assets

	Total £'000
Cost or valuation	
At 1 January 2004	-
Additions	2
At 30 June 2004	2
Accumulated depreciation	
At 1 January 2004	-
Depreciation charge	-
At 30 June 2004	-
Net book amount at 30 June 2004	2
Net book amount at 31 December 2003	-

11. Investments

Details of investments, including the percentage of the share capital owned by the Operating Group, are as follows:

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Vash Molochnik SC (100%)	-	-	-	-
Balakonenko LLC (50%)	-	-	-	-
Other listed and non-listed investments (less than 5% holding)	1	99	89	87
	<u>1</u>	<u>99</u>	<u>89</u>	<u>87</u>
	<u><u>1</u></u>	<u><u>99</u></u>	<u><u>89</u></u>	<u><u>87</u></u>

Vash Molochnik SC was a subsidiary of Agrospectresursy LLC. Vash Molochnik SC has been inactive since November 2002 and has not been combined in these financial statements as this company is in the process of solvent liquidation. Details of transactions and balances between the Group and this company are set out in note 22. Balakonenko LLC has not been combined in these accounts on the grounds of materiality.

Due to the lack of a developed market all investments have been valued at cost. The Operating Group's management believe that the carrying value of investments is not significantly different from fair value.

12. Cash and cash equivalents

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Cash - in UAH	2	-	20	1
Bank - in UAH	73	44	92	55
Bank - in foreign currency	-	4	20	159
	<u>75</u>	<u>48</u>	<u>132</u>	<u>215</u>
	<u><u>75</u></u>	<u><u>48</u></u>	<u><u>132</u></u>	<u><u>215</u></u>

13. Inventories

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Raw materials	142	127	497	715
Finished goods	352	349	900	965
Other inventories	16	92	210	74
	<u>510</u>	<u>568</u>	<u>1,607</u>	<u>1,754</u>
	<u><u>510</u></u>	<u><u>568</u></u>	<u><u>1,607</u></u>	<u><u>1,754</u></u>

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £9,319,000 (2003: £15,222,000 2002: £7,546,000, 2001: £6,973,000).

14. Loans issued

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Related parties (see Note 28)	-	119	15	212
Other	-	-	-	3
	<u>-</u>	<u>119</u>	<u>15</u>	<u>215</u>

Loans issued are denominated in hryvna, short term in nature, unsecured and interest free. The fair values are based on cash flows discounted using a rate based on a borrowing rate of 18%.

15. Receivables and prepayments

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Trade debtors	485	745	1,283	985
Other debtors	12	181	144	245
Prepayments	142	96	485	579
VAT receivable	54	46	210	91
Prepaid profit tax	8	1	1	-
Other prepaid taxes	1	4	20	-
	<u>702</u>	<u>1,073</u>	<u>2,143</u>	<u>1,900</u>

There is no concentration of credit risk with respect to trade receivables as the Operating Group has large number of customers, primarily in Ukraine.

16. Bank loans and overdrafts

Bank loans and overdrafts comprise a series of unsecured loans and overdrafts received from Ukrainian banks and denominated in hryvna. The weighted average interest rate for the loans outstanding at 30 June 2004 was 19.0% (31 December 2003 - 19.25%, 2002 - 26%, 2001 - 26.6%).

17. Trade and other payables

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Trade creditors	291	1,001	1,680	1,203
Other creditors	7	40	178	14
Deferred income	-	-	-	272
Accruals	11	25	44	118
VAT and other taxation payable	27	34	36	10
	<u>336</u>	<u>1,100</u>	<u>1,938</u>	<u>1,617</u>

18. Promissory notes

Promissory notes are denominated in hryvna and are interest free (see note 27 for related party disclosure).

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Payable within 1 year	-	-	3	19
Payable in 1-2 years	-	-	22	21
Payable in 2-5 years	-	56	-	-
Payable in over 5 years	65	39	-	-
	<u>65</u>	<u>95</u>	<u>25</u>	<u>40</u>

19. Long term loans and bonds

Long term loans are repayable in 2006 and of these balances with a face value of UAH2,319,000 are interest free. The fair values of the interest free loans are based on cash flows discounted using a rate based on a borrowing rate of 18%. The carrying value of the remainder approximate to fair value.

In November 2003 the Operating Group company Agrospletsresursy LLC issued bonds denominated in hryvna with a face value of UAH3,123,000. During the six months ended 30 June 2004, this company issued further bonds with a face value of UAH6,877,000. The bonds bear interest at 18% and mature on 8 November 2006. The carrying amounts approximate to fair value.

20. Invested capital

The combined statutory capital of the Operating Group is as follows:

	As at 31 December		
	2001	2002	2003
	£'000	£'000	£'000
Molochnik OJSC	63	185	1,012
UkrProdExpo SC	1	1	1
Agrospletsresursy LLC	2	1	1
Starokonstantinovskiy Molochniy Zavod SC	-	1	-
Starkon-Moloko LLC	-	120	89
Intermilk SC	1	1	1
Closing combined invested capital	<u>67</u>	<u>1,104</u>	<u>1,354</u>

During the year 2003 Alfa-Broker Ltd, and the Operating Group company purchased 15% of the share capital of Starkon-Moloko LLC. This purchase of shares has been reflected as treasury shares in the Operating Group's financial information.

On 18 May 2004, the Operating Group was acquired by Ukrproduct and a consolidated balance sheet was prepared (see Note 21) as at 30 June 2004.

21. Share Capital

Ukrproduct was incorporated on 18 May 2004 and on that date issued 150,000 shares of UAH1 each to the owners of its subsidiaries in consideration for the interests in the subsidiaries listed in note 3(b)

	As at
	30 June
	2004
	£'000
150,000,000 shares of UAH1 each	<u>15,273</u>

22. Minority interest

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Opening balance	202	242	118	68
Share of profit/(loss)	32	(17)	5	7
Gain on revaluation				77
Deferred income tax on gain on revaluation	-	-	-	(18)
Reduction in minority interest on issue of new shares	-	(85)	(42)	-
Depreciation on revaluation of fixed assets	-	-	-	(2)
Exchange difference on translation to presentation currency	8	(22)	(13)	(1)
Closing balance	242	118	68	131

As at 31 December 2003 a minority interest of 4.8% (2002: 23.68%, 2001: 49.67%) was held in Molochnik OJSC. The reduction in minority interest has occurred as a result of additional share issues by that company to the "owners" of the majority.

23. Merger reserve

The merger reserve arises on the application of the pooling of interests method of consolidation used to account for the combination of Ukrproduct and its subsidiaries.

24. Distribution of profit

During the years 2002 and 2003 funds were distributed by Dairy Investment Group Inc. mainly to facilitate the purchase of a new share issue made by Molochnik OJSC. The new shares are controlled by the Operating Group's ultimate beneficial owners via companies not combined in these financial statements. Because these shares are held outside the Operating Group, as defined in note 3b, this has been reflected in these financial statements as a distribution of profit.

25. Cash flows from financing activities

	Year ended 31 December			Six months
	2001	2002	2003	ended
	£'000	£'000	£'000	30 June
				2004
				£'000
Long term loans				
Gross amount of new loans received	-	-	-	296
Repayment of loans	-	-	-	(7)
Net cash flows from long term borrowings	-	-	-	289
Promissory notes				
Gross amount of new promissory notes issued	194	60	156	25
Repayment of promissory notes	(129)	(30)	(86)	(10)
Net cash flows from issue of promissory notes	65	30	(70)	15
Short term borrowings				
Gross amount of new short term borrowings	561	517	315	594
Repayment of short term borrowings	(19)	(810)	(917)	(1,096)
Net cash flows from short term borrowings	542	(293)	602	(502)

26. Operating leases

The minimum amounts payable under non-cancellable operating leases are:

	As at 31 December			As at
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
				£'000
Within one year	62	63	67	179
Within two to five years	5	64	50	48
After more than five years	-	73	59	42
	67	200	176	269
	67	200	176	269

27. Related party transactions

For the purposes of this financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. At 30 June 2004 related parties of the Group included the following:

	Nature of relationship
Vash Molochnik SC	An uncombined 100% subsidiary of Agrospetsresursy LLC
Teilhard Securities Inc	Common control
Ukrmoexpo	Common control
East European Venture Capital Inc	Common control
International Funds for Reconstruction and Development Inc	Shareholder of group company
Advanced Dairy Technology Ltd	Shareholder of group company
Densim Group Management SA	Shareholder of group company
Global Dairy Corporation	Shareholder of group company
Dairy Investment Group Inc	Shareholder of group company
Burinsky Zavod of Dry Milk	Shareholder of group company
Burinsky Zavod Sukhogo	Common control
Obezhirennogo Moloka	
Buhmolprom	Common control
Krasilevsky Moloko Zavod	Common control
Krolevetsky Maslozavod	Common control
Starokonstantinovsky Zavod of Dry Milk	Common control
Starokonstantinovsky Zavod Sukhogo	
Obezhirennogo Moloka	Common control
Terebovlya Zavod of Dry Non-fat Milk	Common control
Terebovlya Zavod of Dry Milk	Common control

28. Related party transactions continued

Transactions and balances between the Operating Group and related parties are set out below. Sales to related parties were as follows. Sales were primarily of finished goods and were made at or near nil mark-up.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Sales				
Vash Molochnik SC	709	1,216	-	-
Teilhard Securities Inc	-	-	-	190
Ukrmolexpo	3,374	73	-	-
International Funds for Reconstruction and Development Inc	-	-	-	-
Krasilevsky Moloko Zavod	244	70	950	120
Krolevetsky Maslozavod	33	62	137	38
Starokonsnantinovsky Zavod of Dry Milk	33	70	-	-
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	-	-	-	-
Terebovlya Zavod of Dry Non-fat Milk	224	64	12	-
Burinmolprom	-	45	-	-
Burinsky Zavod Sukhogo Obezhirennogo Moloka	167	-	-	-
Burinsky Zavod of Dry Milk	24	49	-	-
	<u>4,808</u>	<u>1,589</u>	<u>1,099</u>	<u>348</u>

Purchases from related parties are summarised below.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004 £'000
Purchases				
Vash Molochnik SC	3	8	-	-
Teilhard Securities Inc	-	-	-	223
Ukrmolexpo	956	182	-	-
International Fund for Reconstruction and Development Inc	-	-	-	117
Krasilevsky Moloko Zavod	598	59	857	77
Krolevetsky Maslozavod	50	53	101	20
Starokonsnantinovsky Zavod of Dry Milk	297	86	-	-
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	-	5	26	-
Terebovlya Zavod of Dry Non-fat Milk	184	112	21	-
Burinmolprom	-	28	-	-
Burinsky Zavod Sukhogo Obezhirennogo Moloka	186	55	26	-
Burinsky Zavod of Dry Milk	4	164	-	-
	<u>2,278</u>	<u>744</u>	<u>1,031</u>	<u>437</u>

28. Related party transactions continued

During the year ended 31 December 2003 and the six months ended 30 June 2004, Ukrmolexpo SC, a related party waived loan balances owed by Molochnik OJSC and Agrospectresursy LLC amounting to £215,000. In addition, Ukrmolexpo LLC was liquidated resulting in the write back of a debt owed to that company of £35,000. These amounts have been treated as income.

	Year ended 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
Debt forgiven				£'000
Ukrmolexpo	-	-	250	-

Balances due from/(to) related parties at each period end are shown below.

	As at 31 December			Six months ended
	2001	2002	2003	30 June
	£'000	£'000	£'000	2004
Outstanding balances at the year end				£'000
Vash Molochnik SC	26	-	-	-
Ukrmolexpo	(90)	(166)	(149)	(6)
International Fund for Reconstruction and Development Inc	-	-	-	(117)
Krasilevsky Moloko Zavod	45	202	206	220
Krolevetsky Maslozavod	3	13	(5)	8
Starokonsnantinovsky Zavod of Dry Milk	(27)	42	-	-
Starokonstantinovsky Zavod Sukhogo Obezhirennogo Moloka	-	(2)	32	20
Terebovlya Zavod of Dry Non-fat Milk	78	(48)	(15)	(3)
Burinmolprom	-	(11)	(1)	(1)
Burinsky Zavod Sukhogo Obezhirennogo Moloka	17	-	-	-
Burinsky Zavod of Dry Milk	131	(12)	-	-
Net amounts due from related parties	<u>173</u>	<u>18</u>	<u>68</u>	<u>121</u>
Loans issued outstanding at the year end (note 14)				
Teilhard Securities Inc	-	119	15	212
Promissory notes outstanding at the year end (note 18)				
Ukrmolexpo	<u>(65)</u>	<u>(95)</u>	<u>(25)</u>	<u>(25)</u>

On 18 May 2004, Ukrproduct acquired the Operating Group for a consideration of £15.3 million satisfied by the issue of new shares. The acquisitions were all made from related parties by virtue of common control, namely Global Dairy Corporation, Densim Group Management, Advanced Dairy Technology Ltd, International Fund for Reconstruction and Development, East Europe Venture Capital Inc., Alfa-Broker Ltd and Dairy Investment Group Inc.

29. Currency analysis note

This note was prepared for the year ended 31 December 2003.

	Denominated in				Total £'000
	UAH £'000	US\$ £'000	Russian Rouble £'000	Other Currency £'000	
Assets					
Non current assets					
Property, plant and equipment	1,017	-	-	-	1,017
Investments	89	-	-	-	89
Current assets					
Cash and cash at bank	112	20	-	-	132
Inventories	1,607	-	-	-	1,607
Loans issued	-	15	-	-	15
Receivables and prepayments	1,795	348	-	-	2,143
Total assets	4,620	383	-	-	5,003
Liabilities and shareholders' equity					
Current liabilities					
Bank loans and overdrafts	1,008	-	-	-	1,008
Trade and other payables	1,842	120	22	14	1,998
Promissory notes	3	-	-	-	3
Non current liabilities					
Bonds	302	-	-	-	302
Promissory notes	22	-	-	-	22
Deferred tax	-	-	-	-	-
Total liabilities	3,177	120	22	14	3,333

This note was prepared for the period ended 30 June 2004

	Denominated in				Total £'000
	UAH £'000	US\$ £'000	Russian Rouble £'000	Other Currency £'000	
Assets					
Non current assets					
Property, plant and equipment	4,664	12	-	-	4,676
Intangible assets	2	-	-	-	2
Investments	87	-	-	-	87
Current assets					
Cash and cash at bank	56	159	-	-	215
Inventories	1,754	-	-	-	1,754
Loans issued	3	262	-	-	265
Receivables and prepayments	1,650	176	2	72	1,900
Total assets	8,216	609	2	72	8,899

29. Currency analysis note continued

	UAH £'000	US\$ £'000	Denominated in Russian Rouble £'000	Other Currency £'000	Total £'000
Liabilities and shareholders' equity					
Current liabilities					
Bank loans and overdrafts	482	-	-	-	482
Trade and other payables	1,237	338	23	117	1,715
Promissory notes	19	-	-	-	19
Non current liabilities					
Long term loans	289	-	-	-	289
Bonds	980	-	-	-	980
Promissory notes	21	-	-	-	21
Deferred tax	-	-	-	-	-
Total liabilities	<u>3,028</u>	<u>338</u>	<u>23</u>	<u>117</u>	<u>3,506</u>

30. Brands

The Group owns the brand “Наш Молочник”, which translates into English as “Our Dairyman” “Народний продукт” (“People’s Product”) and “Вершкова Долина” (“Creamy Valley”). These brands have been generated internally by the Operating Group and as such IFRS does not permit them to be recognised as an intangible asset. Therefore the brands have not been capitalised in this financial information.

31. Transition to current base of accounting

As stated in note 3, the accounts for the year ended 31 December 2003 were the Operating Group’s first financial statements prepared in accordance with IFRS, the current basis of accounting.

The accounting policies set out in note 4 have been applied in preparing the financial statements for the years ended 31 December 2001, 2002 and 2003 and the six months ended 30 June 2004 and in the preparation of an opening balance sheet at 1 January 2001, the Operating Group’s transition date. An explanation of how the transition has affected the reported financial position of the Operating Group at the date of transition is set out in the following table.

	Shareholder's equity at 1 January 2001 £'000
Ukrainian statutory accounts	205
Low value item written off	(2)
Intangible assets written off	(1)
Special purpose financial statements	<u>202</u>

32. Post Balance Sheet Events

On 31 January 2005, the Company entered into an agreement with all the shareholders of Ukrproduct, conditional upon Admission (as defined in the Admission Document) to acquire the whole of the issued share capital of Ukrproduct, the consideration for which is to be satisfied by the allotment and issue of 29,999,980 Ordinary Shares of 10p each, credited as fully paid, in the Company.

33. Consent

We consent to the inclusion of this report in the Admission Document and accept responsibility for this report for the purposes of paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART V

PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The following pro forma statement of net assets of the Group has been produced to illustrate the impact of the Placing which will have occurred since 31 October 2004 as if it had occurred on 31 October 2004. The pro forma financial information is based on:

- i) the financial information relating to the Company as at 31 October 2004 extracted from the Accountants' Report in Part III of this document;
- ii) the financial information relating to Ukrproduct as at 30 June 2004 extracted from the Accountants' Report in Part IV of this document; and
- iii) the estimated net proceeds of the Placing.

The pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group.

	Net assets of the Company at 31 October 2004 £'000	Net assets of Ukrproduct at 30 June 2004 £'000	The Placing £'000	Pro forma net assets of the Enlarged Group following the Placing £'000
<i>Non-current assets</i>				
Property, plant and equipment	-	4,676	-	4,676
Intangible assets	-	2	-	2
Investments	-	87	-	87
	-	4,765	-	4,765
<i>Current assets</i>				
Inventories	-	1,754	-	1,754
Loans issued	-	215	-	215
Receivables and prepayments	-	1,900	-	1,900
Cash and cash at bank	2	215	4,518	4,735
	2	4,084	4,518	8,604
Current liabilities				
Bank loans and overdrafts	-	(482)	482	-
Trade and other payables	-	(1,617)	-	(1,617)
Promissory notes	-	(19)	-	(19)
Current income tax liabilities	-	(173)	-	(173)
	-	(2,291)	482	(1,809)
<i>Net-current assets</i>	2	1,793	5,000	6,795
Total assets less current liabilities	2	6,558	5,000	11,560
Non-current liabilities				
Long term loans	-	(189)	-	(189)
Bonds	-	(1,030)	-	(1,030)
Promissory notes	-	(21)	-	(21)
Deferred tax	-	(757)	-	(757)
	-	(1,897)	-	(1,897)
<i>Net assets</i>	2	4,561	5,000	9,563

Notes to the pro-forma statement of net assets

- 1 The pro-forma statement of net assets of the Enlarged Group is shown as if the Company had acquired the entire issued share capital of Ukrproduct as at 31 October 2004.
- 2 The pro-forma statement of net assets of the Enlarged Group is shown as if the Placing had taken place on 31 October 2004. The pro-forma assumes that the net proceeds of the Placing, receivable by the Company, will amount to £5m net of costs amounting to £1m inclusive of applicable VAT.
- 3 No adjustment has been made for any movement in net assets of the Company and Ukrproduct since 31 October 2004 and 30 June 2004 respectively, or for any fair value adjustments that may be required on accounting for the business combination.

The following is the full text of a report on the Company from Baker Tilly, the Reporting Accountants, to the Directors of the Company and W.H. Ireland Limited.



BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST

www.bakertilly.co.uk

The Directors
Ukrproduct Group Ltd
26 New Street
St. Helier
Jersey
JE2 3RA

and

The Directors
W.H. Ireland Limited
11 St. James's Square
Manchester
M2 6WH

31 January 2005

Dear Sirs

UKRPRODUCT GROUP LTD (“the Company”)

Introduction

We report on the unaudited pro forma statement of net assets as at 31 October 2004 of the Company and Ukrproduct Group CJSC (“Ukrproduct”), its proposed subsidiary undertaking (the “Pro Forma Financial Information”), which has been prepared for illustrative purposes only, to provide information about how the Acquisitions and Company’s proposed placing might have affected the financial information presented.

Responsibility

It is the responsibility of the directors of the Company (“Directors”) to prepare the Pro Forma Financial Information.

It is our responsibility to form an opinion on the Pro Forma Financial Information and to report our opinion to you. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed. We do not accept responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement of Net Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

Opinion

In our opinion:

- i) the Pro Forma Financial Information has been properly compiled on the basis stated;
- ii) such basis is consistent with the accounting policies of the Company; and
- iii) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed.

Yours faithfully

Baker Tilly

PART VI

ADDITIONAL INFORMATION

1 The Company

- 1.1 The Company was incorporated in Jersey under the Law, as amended, with the name Ukrproduct Group Ltd on 18 August 2004 with registered number 88352.
- 1.2 The Company is a public company.
- 1.3 The liability of the members of the Company is limited.
- 1.4 The Company's registered office is 26 New Street, St. Helier, Jersey, JE2 3RA.
- 1.5 The register of members of the Company is kept at 26 New Street, St. Helier, Jersey, JE2 3RA.

2 Group Structure

- 2.1 The Company will be the holding company of the Group.
- 2.2 Conditional upon Admission the Company will have three 100% beneficially owned subsidiary companies, particulars of which are set out below:

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Ukrproduct Group CJSC	14th Floor 39-41 Shota Rustaveli Street, Kyiv, 01023 Ukraine	Ukraine	Manufacturing and distribution. Ukraine
Dairy Trading Corporation	Drake Chambers, Tortola	British Virgin Islands	Export operations. British Virgin Islands
LinkStar Limited	Themistokli Dervis, Julia House, P. C. 1066, Nicosia, Cyprus	Cyprus	Owner of trade marks and agents for tax planning of royalty income from Ukraine. Cyprus

- 2.3 Ukrproduct holds beneficially 100% of the equity share capital of the following companies:

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Starokonstantinovskiy Molochniy Zavod SC	47 Ivana Franka Street, Starokostantinovskiy, Khmelnitskiy Region 31100 Ukraine	Ukraine	Production of bulk butter and milk powder Ukraine.
Starkon-Moloko Limited Liability Company	47 Ivana Franka Street, Starokostantinovskiy, Khmelnitskiy Region 31100 Ukraine	Ukraine	Wholesale and retail trading of milk and other milk products, vegetable oil and fat. Ukraine
Ukrprodexpo SC	47 Ivana Franka Street, Starokostantinovskiy, Khmelnitskiy Region 31100 Ukraine	Ukraine	Processing and realisation of milk products and wholesale trade of milk products and other foodstuffs. Ukraine

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Agrospetsresursy Limited Liability Company	21, Zavodska Street, Korolyovskiy Region, Zhytomyr, 10025, Ukraine	Ukraine	Wholesale and retail trade and foodstuffs, beverage food and tobacco goods. Ukraine

2.4 Ukrproduct holds 95.20% of the equity share capital of the following company:

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Molochnik OJSC	21, Zavodska Street, Zhytomyr, Ukraine	Ukraine	Manufacture of processed cheese, packaged butter and cheese. Ukraine

2.5 Agrospetsresursy LLC holds beneficially 100% of the equity share capital of the following companies:

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Agrospetsresursy-Dnipro SC	29, Newspaper Pravda Avenue App.515, Amur-Niznodniproveskiy District, Dnipropetrovsk City 49083 Ukraine	Ukraine	Processing and realisation of milk products and the wholesale trade of foodstuffs. Ukraine
Agrospetsresursy-Lviv SC	28, Krymska Street, Lviv, Ukraine	Ukraine	Processing of milk products and the wholesale and retail trade of milk products, eggs, oil, and other foodstuffs. Ukraine
Ukrevroproduct SC	13, Adegeyskaya Street, Krovskiy District, Donetsk, 83112 Ukraine	Ukraine	Processing, wholesale and retail trade of milk products and other foodstuffs. Ukraine
Torgoviy Dim Milko SC	47, Brodivska Street, Ternopil, Ukraine	Ukraine	Processing of milk products and all operating activities in the wholesale and retail trade of milk products, eggs, oil and other foodstuffs. Ukraine
Nash Molochnik Private Enterprise SC	13, Kikvidze Street, Kyiv, 01103 Ukraine	Ukraine	Processing and selling of dairy products. Ukraine
Argospetsresursy-Zhytomyr SC	21, Zovadskaya Street, Korolyovskiy Region, Zhytomyr 10025, Ukraine	Ukraine	Processing of milk products and wholesale and retail of milk products and other foodstuff. Ukraine

Name	Registered Office	Country of Incorporation	Principal activity and place of business
Torgoviy Dim Maslyana SC	1 Sadova Street, Tsentalniy Region, Mikolayev, 54001 Ukraine	Ukraine	Processing of milk products and wholesale and retail of milk products and other foodstuff. Ukraine
Ukrproduct Kharkov SC	126 Plehanovskaya Street, Kharkov, Ukraine	Ukraine	Processing of milk products and wholesale and retail of milk products and other foodstuff. Ukraine
Vash Molochnik SC	No 13 Adigeskaya Street, Post Code 112, Donetsk City, Ukraine	Ukraine	Dormant
Intermilk SC	24 Moscorska Street, Kyiv 01010, Ukraine	Ukraine	Dormant

Agrospetsresursy LLC holds 50% of Balakonenko LLC a dormant company whose registered office is at 21 Zawodskay Street, Zhytomyr 10025, Ukraine.

3 Share Capital

3.1 On incorporation, the authorised share capital of the Company was £1,000,000 divided into 1,000,000 Ordinary Shares of £1.00 each.

3.2 Written resolutions of all the shareholders of the Company were passed on 26 November 2004 pursuant to which, *inter alia*:

3.2.1 40,000,000 new ordinary shares of £0.10 each were created;

3.2.2 each of the existing 1,000,000 shares of £1.00 each were divided into ten ordinary shares of £0.10 each;

3.2.3 the Company's memorandum of association was amended; and

3.2.4 new articles of association were adopted.

3.3 The present authorised and issued share capital of the Company is, and the enlarged authorised and issued share capital of the Company immediately following the Placing will be as follows:

3.3.1 Present authorised and issued share capital

Class of Security	Authorised		Issued and fully paid	
	(£)	Number	(£)	Number
Ordinary Shares of £0.10 each	5,000,000	50,000,000	2	20

3.3.2 Enlarged authorised and issued share capital following Admission

Class of Security	Authorised		Issued and fully paid	
	(£)	Number	(£)	Number
Ordinary Shares of £0.10 each	5,000,000	50,000,000	4,121,495	41,214,953

3.4 Save as disclosed this paragraph 3, there has been no increase or reduction in the authorised or issued share capital of the Company since the date of incorporation.

3.5 The Directors have no present intention of allotting and issuing any relevant security save as disclosed in this document.

3.6 Save as mentioned this paragraph 3 and paragraph 5 and save in relation to the Share Options:

3.6.1 no issued share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option; and

- 3.6.2 no share capital or loan capital of the Company has been issued for cash or other consideration since the incorporation of the Company and no such issue is proposed; and
- 3.6.3 no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share capital.

4 Memorandum and Articles of Association

4.1 Memorandum of Association

Pursuant to Article 18 of the Law, the capacity of the Company is not limited by anything in its memorandum of association. In accordance with the provisions of the Law, the Company's memorandum of association does not contain an objects clause.

4.2 Articles of Association

The new articles of association of the Company were adopted by written resolution of the shareholders of the Company passed on 26 November 2004 and contain, *inter alia*, provisions to the following effect:

4.2.1 Voting Rights

Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares on a show of hands every member present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every member shall have one vote for each share of which he is the holder.

In the case of joint holders unless such joint holders shall have chosen one of their number to represent them and so notified the Company in writing the vote of the most senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.

On a poll votes may be given either personally or by proxy.

4.2.2 Dividends

The Company in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Directors in accordance with the respective rights of the members and the declaration of the Directors as to the amount of the profits shall be conclusive.

The Directors may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company.

If the share capital is divided into different classes the Directors may pay interim dividends on shares which confer deferred or non-preferential rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

Directors may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

Provided the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

The Directors may before recommending any dividend set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall at their discretion be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may at the like discretion either be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

The Directors may deduct from any dividend payable to any member all such sums of money (if any) as may be due and payable by him to the Company on account of calls or otherwise.

No dividend shall bear interest against the Company.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. No unclaimed dividend shall bear interest against the Company. The payment by the Directors of any unclaimed dividend or other monies payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

4.2.3 **Capitalisation of Reserves**

Subject to any necessary sanction or authority being obtained the Company in general meeting may at any time and from time to time pass a resolution that any sum not required for the payment or provision of a fixed dividend with or without further participation in profits and (a) for the time being standing to the credit of any reserve fund of the Company including premiums received on the issue of any shares or debentures of the Company (b) being undivided profits in the hands of the Company be capitalised and that such sum be appropriated as capital to and amongst the members in the shares and proportions in which they would have been entitled thereto if the same had been distributed by way of dividend and in such manner as the resolution may direct and the Directors shall in accordance with such resolution apply such sum in paying up in full or in part (where permitted by the Law) any unissued shares or debentures of the Company on behalf of such members and appropriate such shares or debentures to and distribute the same credited as fully paid up or partly paid up (where permitted by the Law) amongst them in the proportions aforesaid in satisfaction of their shares and interest in the said capitalised sum or shall apply such sum or any part thereof on behalf of such members in paying up the whole or part of any uncalled balance which shall for the time being be unpaid in respect of any issued shares or debentures held by them.

4.2.4 **Share Capital**

Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares (which special rights should not be varied or abrogated except with such consent or sanction as contained in the Articles) any share or class of shares in the share capital of the Company may be authorised for issue with such preferred, deferred or other special rights or such restrictions whether in regard to dividend return of capital voting or otherwise as the Company may from time to time by special resolution determine.

The Company may by special resolution alter its share capital as stated in its memorandum in any of the ways permitted or provided for under the Law. Subject to any confirmation by the court and the provisions of the Law the Company may by special resolution reduce its share capital in any way.

The Company may from time to time subject to the provisions of the Law issue or convert existing non-redeemable shares whether issued or not into shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder thereof.

The Company may from time to time subject to the provisions of the Law purchase its own shares (including any redeemable shares) in any manner authorised by the Law provided that in the event that the Company shall purchase any shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

4.2.5 **Modification of Rights**

Subject to the Law whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated at any time with the consent in writing of the holders of two thirds of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To

every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall mutatis mutandis apply except that the necessary quorum shall be persons holding or representing by proxy at least one third in nominal amount of the issued shares of the class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present one person present holding shares of that class or his proxy shall be a quorum) and that the holders of shares of that class or their duly appointed proxies shall on a poll have one vote in respect of every share of that class held by them respectively.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other special rights shall (unless otherwise expressly provided by the conditions of the issue of such shares) be deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith.

4.2.6 **Shares**

Subject to the Directors being authorised to do so by way of an ordinary resolution, such authority to be for a period of no more than 5 years and being in respect of no more than fifteen percent or more of the authorised unissued share capital of the Company and subject to the pre-emption provisions contained in Article 4(2), unissued shares at the date of adoption of these Articles and any shares hereafter created shall be at the disposal of the Board which may allot (with or without conferring rights of renunciation), grant options over, offer or otherwise deal with or dispose them, or rights to subscribe for or convert any security into shares, to such persons (including the Directors themselves), at such times and generally on such terms and conditions as the Board may decide, provided that no share shall be issued at a discount to its nominal value.

Unless otherwise determined by the Company by special resolution, the Company shall before allotting or granting options or warrants over or otherwise dealing with any shares representing fifteen percent or more of the authorised unissued share capital (from time to time) offer such shares and/or options to the existing holders of shares in the capital of the Company in proportion, as nearly as may be practicable, to the number of existing shares held by them respectively. Such offer shall be made in accordance with the relevant article to each such holder specifying the number of shares offered to him and the subscription price therefore, or details of the option, and inviting him to state in writing within the period set out in the relevant article whether he wishes to accept the option and/or any, and if so what number, of shares offered to him and whether he wishes to subscribe for shares in excess of his entitlement and, if so, what maximum number. If within the period set out in the relevant article, such holders have expressed their willingness to accept the option and/or all or any of the shares offered to them, such option and/or shares shall be so issued to them accordingly. Any shares so offered to any such holder and not taken up within such period shall be issued to those holders who have taken up their full entitlement of shares and who have indicated a willingness to subscribe for excess shares as aforesaid and such issue will be in proportion, as nearly as may be practicable, to the number of excess shares which they have each expressed a willingness to take up but subject to the limitation that no shares shall be issued to any such holder in excess of the maximum number which he has expressed a willingness to subscribe provided that the relevant article shall not apply in respect of any issue or allotment of any shares in the Company or the grant of any options or warrants over shares which occur contemporaneously with the admission of the Company's shares to trading on the AIM.

Any shares not taken up pursuant to such offer as aforesaid and any shares released from the provisions of the relevant article by any such special resolution shall be under the control of the Directors who may exercise the power referred to above provided that in the case of any shares not disposed of pursuant to any pre-emptive offer as aforesaid, such shares shall not be disposed of on terms more favourable to the subscribers therefore than the terms on which they were offered to the Company's existing members.

4.2.7 **Interest in Shares**

The Company may by notice in writing require a member, or other person appearing to be interested in shares held by that member (“interested parties”), whom the Company knows or has reasonable cause to believe to be or, at any time during the 3 years immediately preceding the date on which the request is issued, to have been interested in shares comprised in the Company’s relevant share capital;

- (i) to confirm that fact or (as the case may be) to indicate whether or not it is the case; and
- (ii) where the member, interested parties, holds or has during that time held an interest in shares so comprised, to give such further information as may be required in accordance with the relevant article.

4.2.8 **Transfer of Shares**

The Company may permit the holding in uncertificated form of one or more classes of shares determined by the Directors for this purpose in order that the transfer of title to any such shares may be effected by means of a computer system in accordance with the Jersey Regulations provided that the register of members shall be held in Jersey pursuant to the Law.

Unless and until the Directors determine that one or more classes of share may be held in uncertificated form, the shares shall be issued in certificated form.

The Directors shall have power to implement such arrangements as they may in their absolute discretion think fit in order for any class of shares to be a participating security (subject always to the Regulations and the facilities and requirements of the relevant system concerned). Where they do so:

4.2.8.1 the Articles shall be construed accordingly and shall be deemed to be modified, amended or extended to the extent necessary to ensure that the same are consistent with the provisions of the Regulations and to permit the holding of shares of the relevant classes in uncertificated form and the transfer of title to shares of the relevant classes by means of a computer system; and

4.2.8.2 the provisions of the Articles shall commence to have effect immediately prior to the time at which the operator of the relevant system concerned permits the class of shares concerned to be a participating security.

In relation to any class of shares which is, for the time being, a participating security, and for so long as such class remains a participating security, no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- (I). the holding of shares of that class in uncertificated form;
- (II). the transfer of title of shares of that class by means of a relevant system; or
- (III). the Regulations

Without prejudice to the generality of and notwithstanding anything contained in the Articles, where any class of shares is, for the time being, a participating security (such class being referred to hereinafter as the “Relevant Class”):

- (I). shares of the Relevant Class may be issued in uncertificated form in accordance with the Regulations;
- (II). unless the Directors otherwise determine, shares of the Relevant Class held by the same holder or joint holder in certificated form and uncertificated form shall be treated as separate holdings;
- (III). shares of the Relevant Class may be changed from uncertificated to certificated form and from certificated to uncertificated form, in accordance with the Regulations;

- (IV). title of shares of the Relevant Class which are recorded on the register as being held in uncertificated form may be transferred by means of the relevant system concerned and accordingly (and in particular but without limitation) the Articles shall not apply in respect of such shares to the extent that any article requires or contemplates the effecting of a transfer by an instrument in writing and the production of a certificate for the share to be transferred;
- (V). The Company shall comply with the provisions of the Regulations in relation to the Relevant Class;
- (VI). The provisions of the Articles with respect to meetings of or including holders of the Relevant Class, including notices of such meetings, shall have effect subject to the Regulations;
- (VII). Where relevant any article that requires the Company to issue a certificate to any person holding shares of the Relevant Class in uncertificated form shall not apply.

Any instrument of transfer of shares shall be in writing in any form which the Directors may approve (which shall specify the full name and address of the transferee) and shall be signed by or on behalf of the transferor (and, in the case of any partly paid share, the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may decline to register any transfer of shares prohibited by the Articles and may decline to register any transfer of shares unless the instrument of transfer is deposited at the office or such other place as the Directors may reasonably require, accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. If the Directors decline to register a transfer of any share, they shall, within 2 months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine.

The Company shall be entitled to retain any instrument of transfer of any share which is registered, but any instrument of transfer of any share which the Directors refuse to register shall be returned to the person lodging it when notice of the refusal is given.

4.2.9 **Lien**

The Company shall have a lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a lien on all shares (other than fully paid shares) standing registered in the name of a single person for all monies presently payable by him or his estate to the Company but the Directors may at any time declare any shares to be wholly or in part exempt from the provisions of the relevant article. The Company's lien (if any) on the shares shall extend to all dividends payable thereon.

4.2.10 **General Meetings**

The Company shall hold a general meeting as its Annual General Meeting once in every calendar year at each time and at such place as may be determined by the Directors.

The Directors may whenever they think fit convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on a requisition made in accordance with the Law in writing and signed by members holding in the aggregate not less than one tenth in nominal value of the shares carrying the right to vote at the meeting.

If at any time there are not within the Island of Jersey sufficient Directors capable of acting to form a quorum any Director or any member of the company may convene an Extraordinary General Meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

4.2.11 **Appointment of Directors**

The number of Directors shall be not fewer than four.

A Director need not be a member of the Company.

The Directors shall have power at any time and from time to time to appoint, subject to the provisions of the Law, any person to be a Director either to fill a casual vacancy or as an additional Director.

The Company may by Ordinary Resolution appoint any person to office as a Director.

4.2.12 **Election, Re-election and Retirement of Directors**

Subject to the provisions of the Articles all Directors shall submit themselves for election by shareholders at the first opportunity after their appointment, and shall not remain in office for longer than three years since their last election or re-election without submitting themselves for re-election. At each Annual General Meeting, the Directors subject to retirement in accordance with the Articles shall retire from office. A Director retiring at such meeting shall retain office until the dissolution of such meeting and accordingly on retiring a Director who is re-elected or deemed to have been re-elected pursuant to the Articles will continue in office without a break.

The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and any Director who has been, or who by the time of the next Annual General Meeting will have been, in office for three years.

4.2.13 **Powers of Directors**

The business of the Company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the Company and who may exercise all such powers of the Company as are not provided for by the Law, the memorandum of association of the Company, the Articles, or any directions given by special resolution required to be exercised by the Company in general meeting. No alteration of the memorandum of association of the Company or the Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The powers given by the relevant Article shall not be limited by any special power given to the Directors by the Articles. A meeting of the Directors at which a quorum is present may exercise all powers and discretions exercisable by the Directors.

4.2.14 **Proceedings of Directors**

The Directors may meet together for the despatch of business adjourn and otherwise regulate their meetings and proceedings as they think fit and may determine the quorum necessary for the transaction of business which in default of such determination shall be four, provided that the quorum always includes at least two Directors who are not UK residents.

No meeting of the Directors shall be held in the United Kingdom and any decision reached or resolution passed by the directors at any meeting which is held in the United Kingdom shall be invalid and of no effect. Any Director may participate in a meeting of the Directors or in a committee thereof by means of a conference telephone or similar communications equipment whereby all of the Directors participating in the meeting can hear each other and the Directors participating in this manner shall be deemed to be present in person at such meeting for all the purposes of the Articles, PROVIDED THAT no Directors physically present in the United Kingdom at the time of any such meeting may participate in the meeting by means of a conference telephone or, similar communications equipment.

The Directors may elect a chairman of their meetings and determine the period for which he is to hold office but if no such chairman is elected or if at any meeting the chairman is not present at the time appointed for holding the same the Directors present shall choose one of their number to be chairman of such meeting.

4.2.15 **Directors' Interests**

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a member or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of or from his interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which to a material extent conflicts with the interests of the Company and of which he has actual knowledge shall disclose to the Company (by notice to the Directors) the nature and extent of his interest. Subject thereto any such Director shall not be liable to account to the Company for any profit or gain realised by him on such transactions.

A notice in writing given to the Company by a Director that he is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may vote in respect of any such transaction and if he does so vote his vote shall be counted and he shall be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Law a Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

4.2.16 **Borrowing Powers**

Subject to the provisions of the Articles, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate amount at any one time owing by the group (being the Company and all its subsidiary undertakings from time to time) in respect of monies borrowed, exclusive of monies borrowed by the Company or any of its subsidiary undertakings from any other of such companies, shall not at any time, without the previous sanction of the Company in general meeting, exceed of the sum of £20,000,000

4.2.17 **Accounts and Auditors**

The Directors shall cause accounting records to be kept which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company at that time and enable the Directors to ensure that any accounts prepared by the Company comply with the requirements of the Law.

The accounting records shall be kept at the office or at such other place or places as the Directors think fit and shall always be open to the inspection of the Directors the Secretary and any liquidator of the Company and must be such as to disclose with reasonable accuracy the financial position of the business in question at intervals of not more than six months and enable the Directors to ensure that any accounts prepared by the Company comply with the requirements of the Law. Subject to the provisions of the Law such accounting records shall be preserved for a period of at least ten years from the date on which they are made.

The Directors shall determine and may vary the accounting reference date for the Company by resolution of the Directors and shall cause to be prepared accounts for the Company for periods of not more than eighteen months (a) beginning on the date of incorporation of the Company or (b) if the Company has previously prepared a profit and loss account beginning at the end of the period covered by the most recent account or (c) if the Company has not prepared such an account for a period ending within twelve months before the entry into force of Article 104 of the Law beginning on a date to be determined by the Directors not later than the date of the entry into force of Article 104. Such accounts shall be prepared in accordance with generally accepted accounting principles and show a true and fair view of the profit or loss of the Company for the period and of the state of the Company's affairs at the end of the period and comply with any other requirements of the Law. Notwithstanding the aforementioned provisions of the Articles, the Company's first accounts shall be prepared for the period ending 31 December 2005 and in each year thereafter the accounting reference date of the Company shall be 31 December.

The Company's accounts shall be approved by the Directors and signed on their behalf by at least one Director.

Within seven months after the end of each financial period, the Directors shall deliver to the registrar a copy of the accounts for that period signed by one of the Directors on behalf of them all and a copy of the auditors' report thereon together with a certified correct translations where such documents are not produced in the English language.

Auditors shall be appointed for the Company under the provisions of the Law to examine and report in accordance with the Law on the accounts of the Company.

4.2.18 **Winding Up**

Subject to the claims of any secured creditors and to the provisions of any enactment as to preferential payments the Company's property shall on winding up be realised and applied in satisfaction of the Company's liabilities *pari passu* and subject thereto any surplus shall then be distributed amongst the members according to their rights and interests in the Company. Subject to the rights of the holders of shares issued upon special conditions if the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital such assets shall be shared on a *pro rata* basis amongst members by reference to the number of fully paid up shares held by each member respectively at the commencement of the winding up.

If the Company shall be wound up the liquidator, or where there is no liquidator the Directors, may with the sanction of a special resolution divide amongst the members in specie any part of the assets of the Company or vest the same in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction shall think fit.

5 Directors' and Other Interests

- 5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company as at the date of this document and following Admission (assuming full subscription under the Placing) and the interests of persons connected with the Directors, the existence of which is known or which, with reasonable diligence, can be ascertained by a Director, are as follows:

Director	At the Date of this Document		Immediately following Admission	
	No. of Ordinary Shares	Percentage of Issued Ordinary Share Capital	No. of Ordinary Shares	Percentage of Issued Ordinary Share Capital
Sergey Evlanchik and Alexander Slipchuk jointly ⁽¹⁾	10	50	15,000,000	36.39
Sergey Evlanchik and Alexander Slipchuk jointly ⁽²⁾	10	50	15,000,000	36.39
Dmitry Dragun ⁽³⁾	Nil	Nil	Nil	Nil
Iryna Yevets ⁽³⁾	Nil	Nil	Nil	Nil
Jack Rowell ⁽³⁾	Nil	Nil	18,690	0.05
Paul Williams ⁽³⁾	Nil	Nil	9,345	0.02
David Lattimore ⁽³⁾	Nil	Nil	9,345	0.02

Notes: 1 This shareholding is held by Crensel Finance Ltd, a company beneficially owned by Messrs Slipchuck and Evlanchik jointly in equal shares.

2 This shareholding is held by Densim Group Management SA, a company beneficially owned by Messrs Slipchuck and Evlanchik jointly in equal shares.

3 Recipients of the Share Options, further details of which are set out at paragraph 5.3 of this Part VI.

- 5.2 Save as disclosed in paragraph 5.1 above, at the date of this document and immediately following Admission, so far as the Directors are aware, there are no persons who are or will be interested, directly or indirectly, jointly or severally in 3% or more of the issued ordinary share capital of the Company or who exercise or could exercise control over the Company.
- 5.3 The Company has, conditional upon Admission, granted to each of Dmitry Dragun and Iryna Yevets an option to subscribe at the Placing Price for such number of Ordinary Shares as represent 0.5% and 1% respectively of the fully diluted ordinary share capital of the Company immediately following Admission. In addition, each of Jack Rowell, Paul Williams and David Lattimore has, conditional upon Admission, been granted an option to subscribe at the Placing Price for such number of Ordinary Shares as represent 0.2% of the fully diluted ordinary share capital of the Company immediately following Admission.
- 5.4 Other than the directorships of Group companies the current directorships and partnerships (all of which are registered in England and Wales unless otherwise indicated), held during the 5 years preceding the date of this document, of each of the Directors are as follows:

Director	Current	Past
Alexander Slipchuk	Ukrproduct Group plc	Alfa-Broker Ltd
Sergey Evlanchik	Ukrproduct Group plc	Alfa-Broker Ltd
Dmitry Dragun	Ukrproduct Group plc	None
Iryna Yevets	None	None
Jack Rowell	DSI Limited Celsis plc Celsis International Limited Turleigh Limited	Lumac Limited Bristol Rugby Club Limited Lyons Seafood Limited Danmaid Limited Dalgety plc Pilgrim Food Group Limited Pilgrim Food Holdings Limited Inchbrook Limited The Residential Care Group Limited Saint-Gobain Pipe Systems Limited Marlar Bennetts International Executive Search Limited Dolphin Computer Services Limited

Director	Current Directorships	Past Directorships
Jack Rowell		Dolphin Computer Services (Holdings) Limited Marlar Bennetts International Limited OSI Group Limited OSI Group Holdings Limited
Paul Williams	Angus & Ross plc Mainboard Management Services Limited Dee Valley Community Partnership Limited	Maelor plc Maelor Pharmaceuticals Limited Maelor Laboratories Limited
David Lattimore	Forgefirst Limited South West Food and Drink Limited	Dairy Crest Direct Limited Milk Development Council Holdings Limited Lendec Limited The Dairy Industry Association Limited National Dairyman's Association Limited Subsidiary Companies of Unigate plc and Dairycrest plc

5.5 None of the Directors has:

- 5.5.1 any unspent convictions in relation to indictable offences;
- 5.5.2 had any bankruptcy order made against him or entered into any individual voluntary arrangements;
- 5.5.3 been a director of a company which has been placed in receivership, compulsory liquidation, creditors voluntary arrangement or made any composition or arrangement with its creditors generally or of any class of its creditors generally or of any class of its creditors whilst he was a director of that company or within 12 months after he ceased to be a director of that company;
- 5.5.4 been a partner in a partnership which has been placed in compulsory liquidation, administration or made a partnership voluntary arrangement whilst he was a partner in that partnership or within 12 months after he ceased to be a partner in that partnership;
- 5.5.5 had any asset placed in receivership or any assets of a partnership in which he was a partner placed in receivership or whilst he was a partner in that partnership or within 12 months after he ceased to be a partner in that partnership;
- 5.5.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies);
- 5.5.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs for the Company.

6 Directors' Consultancy Contracts Service Agreements and Letters of Appointment

6.1 The Directors whose name appear on page 8 of this document, have been appointed to the offices set out next to their respective names. The terms of their respective service agreements and letters of appointment are set out below:

6.1.1 The Company has, subject to Admission, entered into service agreements with the following directors:

(1) Name of Director	(2) Salary Per Annum	(3) Title/Duties
Sergey Evlanchik	£50,000	Chief Executive
Alexander Slipchuk	£45,000	Director
Iryna Yevets	£40,000	Chief Operating Officer
Dmitry Dragun	£35,000	Finance Director

The service agreements are in identical terms for each of the above named Directors, save for their salary which is set out in column 2 against each of their names above. Each Director's salary will be reviewed annually by the Company's remuneration committee. Each service agreement is terminable by either party giving to the other not less than three months' notice in writing.

6.1.2 Jack Rowell, David Lattimore and Paul Williams are engaged by the Company as non-executive directors on the terms of a letter of appointment. The services of Jack Rowell are provided through Turleigh Limited and the services of David Lattimore are provided through Forgefirst Limited. The appointments may be terminated by either party on giving three months notice in writing. Jack Rowell will receive an annual fee of £30,000 and each of David Lattimore and Paul Williams will receive an annual fee of £25,000.

6.1.3 Save as set out in paragraph 6.1 above, there are no existing or proposed agreements between the Directors and the Company.

6.2 The aggregate remuneration of the Directors (inclusive of pension contributions or benefits in kind) in respect of the twelve month period ended 31 December 2004 was approximately £20,000.

7 Related Party Transactions

Save as set out in this Prospectus the Directors are not aware of any contract or other arrangement between any Group Company and a related party (including a Director or a spouse, parent or child of a Director or an entity controlled by any of them) within the two years preceding 31 January 2005 (the last practicable date prior to the publication of this document).

8 Material Contracts

The following contracts, not being contracts entered into the ordinary course of business, have been entered into by the Company within the two years prior to the date of this document and are or may be material:-

8.1 By an agreement dated 22 April 2004 between W.H. Ireland (1) and the Company (2) ("the Nominated Adviser Agreement") W.H. Ireland has agreed to act as nominated adviser to the Company and to advise and assist the Company in preparing the Company for an application for its Ordinary Share capital to be admitted to trading on AIM.

The agreement provides for the payment to W.H. Ireland of the following fees:

- (i) £1,500 plus VAT per month from the date of the agreement to the date of Admission ("the Financial Adviser Fee"); and
- (ii) a further fee of £90,000 on Admission ("the Success Fee");

- (iii) an annual advisory fee payable for a minimum of 12 months following Admission of £25,000 plus VAT for acting as Nominated Adviser and such fee shall be payable quarterly in advance with the first payment of £7,343.75 being due immediately following Admission;
- (iv) immediately upon Admission, the option referred to in paragraph 8.17.

Upon Admission, the Financial Adviser Fee will be deducted from the Success Fee.

Prior to Admission, the Company may terminate this agreement if W.H. Ireland chooses for any reason to terminate the Broker Agreement of 22 April 2004. After Admission either the Company or W.H. Ireland may terminate this agreement on six months' prior written notice. W.H. Ireland may nevertheless terminate its appointment as nominated adviser at any time if the Company or the Directors are in breach of their obligations or if there are circumstances in which W.H. Ireland in its absolute discretion, forms the opinion that it is no longer suitable for the Company's shares to be traded on AIM.

The Nominated Adviser Agreement contains indemnities from the Company to W.H. Ireland.

- 8.2 By an agreement dated 22 April 2004 between W.H. Ireland (1) and the Company (2) ("the Broker Agreement") W.H. Ireland has agreed to act as the Company's Broker for the purpose of Admission. The Broker Agreement may be terminated by either party giving to the other six months prior written notice.

Under the Broker Agreement W.H. Ireland will be paid £15,000 per annum plus VAT from the date of Admission payable quarterly in advance and a fee of £25,000 plus out of pocket expenses and VAT will be payable on Admission. In addition, the Company has agreed to pay a commission equal to 5% of the funds raised by W.H. Ireland together with out-of-pocket expenses and VAT thereon.

- 8.3 Under the Placing Agreement, W.H. Ireland has agreed to act as the Company's agent and use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. Pursuant to the Placing Agreement, the Company and the Directors have given certain warranties and indemnities to W.H. Ireland regarding, *inter alia*, the accuracy of the information in this document and as to other matters in relation to the Company and its business.

The Placing is not underwritten.

The Placing Agreement is conditional, *inter alia*, on Admission taking place no later than 11 February 2005 or such later date as may be agreed by the Company and W.H. Ireland and on the Company and its Directors complying with certain obligations under the Placing Agreement.

W.H. Ireland are entitled in certain circumstances (including for an event constituting force majeure or for a material breach of the warranties referred to above) to terminate the Placing Agreement prior to Admission and to the payment of its outstanding costs on such termination.

- 8.4 By an agreement dated 31 January 2005 between the Company (1), W.H. Ireland (2) and each of Densim Group Management SA and Crensel Finance Ltd (3) ("the Corporate Lock In Agreement") each of Densim Group Management SA and Crensel Finance Ltd has undertaken to the Company and W.H. Ireland (for as long as W.H. Ireland remains the Company's Nominated Adviser) that they will not sell, transfer or otherwise dispose of any interest in the Ordinary Shares for a period of 12 months from the date of Admission. They have also agreed for a further period of 12 months thereafter only to effect any disposal through W.H. Ireland.
- 8.5 By agreements dated 31 January 2005 between the Company (1), W.H. Ireland (2) and each of the Directors (3) ("the Directors Lock In Agreement"), each of the Directors has undertaken to the Company and W.H. Ireland (for as long as W.H. Ireland remains the Company's Nominated Adviser) that he will not sell, transfer or otherwise dispose of any interest in the Ordinary Shares for a period of 12 months from the date of Admission ("the Lock In Period"). Each of the Directors has also agreed for a further period of 12 months thereafter only to effect any disposal through W.H. Ireland.
- 8.6 By an agreement dated 31 January 2005 between Bedell Cristin Trust Company Limited (1) and the Company (2) ("the Administration Agreement") Bedell Cristin Trust Company Limited has agreed to provide administrative services to the Company. The administrative services that will be provided to the Company are set out in the Administration Agreement which incorporates Bedell Cristin Trust Company Limited's standard terms of business.

- 8.7 A share exchange agreement (“the Share Exchange Agreement”) dated 31 January 2005 conditional upon Admission between Densim Group Management SA, Crensel Finance Ltd and Ukrproduct Group Ltd pursuant to which Densim Group Management SA and Crensel Finance Ltd transfer the entire issued share capital in Ukrproduct to the Company in consideration for 30,000,000 Ordinary Shares.
- 8.8 By an agreement dated 6 January 2005 between (1) W.H. Ireland, (2) Metropol and (3) the Company (“the Placing Agreement”) Metropol has agreed to act as Placing Agent for W.H. Ireland and use its reasonable endeavours to introduce potential investors in the Company to W.H. Ireland. Metropol will receive a commission of 2.5 per cent. of the total aggregate of the Placing Price paid by the Investors introduced by Metropol, which will form part of the fees paid by the Company to W.H. Ireland pursuant to the Placing Agreement.
- 8.9 Agreements between Alfa-Broker Ltd and LinkStar dated 8 September 2004 and 23 December 2004 pursuant to which certain trademarks including “Nash Molochnik” were transferred to LinkStar.
- 8.10 An agreement between Alfa-Broker Ltd, Ukrproduct Group plc and LinkStar dated 31 January 2005 relating to the transfer of all the intellectual property rights held by Alfa-Broker Ltd and Ukrproduct Group plc to LinkStar in consideration for the aggregate sum of £375,000, which sum has been left outstanding as a loan.
- 8.11 An agreement between Dairy Investment Group Inc and Agrospletsresursy LLC relating to the acquisition by Agrospletsresursy LLC of the entire issued share capital of Ukrevroproduct SC.
- 8.12 A share sale agreement dated 1 December 2004 conditional upon Admission, between Ukrproduct Group plc and the Company, transferring the entire issued share capital of LinkStar to the Company for a consideration of £1 and a share sale agreement dated 31 January 2005 conditional upon Admission between UKrproduct Group plc and the Company transferring the entire issued share capital of Dairy Trading Corporation to the Company for a consideration of £1.
- 8.13 Agreements relating to the acquisition of shares by Ukproduct from the companies set out below:
- 8.13.1 Alfa-Broker Ltd
- 8.12.1.1 15% of Starkon-Moloko LLC
- 8.12.1.2 100% Starokonstantinovskiy Molochiy Zavod SC
- 8.13.2 International Fund for Reconstruction and Development Inc.
- 8.12.2.1 47.4% of Starkon-Moloko LLC
- 8.12.2.2 20.23% of OJSC Molochnik OJSC
- 8.13.3 East Europe Venture Capital Inc.
- 8.12.3.1 37.6% of Starkon-Moloko LLC
- 8.13.4 Dairy Investment Group Inc.
- 8.12.4.1 100% Ukrprodexpo SC
- 8.12.4.2 100% Agrospletsresursy LLC
- 8.13.5 Advanced Dairy Technology Limited
- 8.12.5.1 24.99% of Molochnik OJSC
- 8.13.6 Global Dairy Corporation
- 8.12.6.1 24.99% of Molochnik OJSC
- 8.13.7 Densim Group Management SA
- 8.12.7.1 24.99% of Molochnik OJSC
- 8.14 Agreements, unless otherwise stated, entered into on 21 July 2004, between Crensel Finance Ltd and the following companies relating to the acquisition of shares as set out below:
- 8.14.1 Alfa-Broker Ltd, in respect of 1.33% of Ukrproduct for a consideration for \$20,000.

- 8.14.2 International Fund Reconstruction and Development Inc., in respect of 21% of Ukrproduct for a consideration of \$315,000.
 - 8.14.3 East Europe Venture, in respect of 0.67% of Ukrproduct for a consideration of \$10,000.
 - 8.14.4 Dairy Investment Group Inc., in respect of 2% of Ukrproduct for a consideration of \$30,000; and
 - 8.14.5 On 29 June 2004 Global Dairy Corporation, in respect of 25% of Ukrproduct for a consideration of \$375,000 .
- 8.15 An indemnity dated 31 January 2005 by Sergey Evlanchik and Alexander Slipchuk in favour of the Group whereby Messrs Evlanchik and Slipchuk have agreed to procure that certain transferors (“the Transferors”) of assets to the Group and of shares in the Group to other companies within the Group settle any liability arising out of such transfers detailed in paragraphs 8.13 and 8.14 above or any other liabilities of the Transferors, which if not settled may result in any of the transfers referred to above being avoided.
 - 8.16 A Share Sale Agreement between Densim Group Management SA and Advance Dairy Technology Limited in respect of 25% of Ukrproduct in consideration for \$375,000.
 - 8.17 On 31 January 2005 the Company granted to W.H. Ireland, conditional upon Admission, an option to subscribe for 1,302,896 Ordinary Shares at the Placing Price. The option is exercisable, in whole or in part, at any time for a period of 3 years from the date of Admission.

9 Working Capital

The Directors are of the opinion, having made due and careful enquiry and having regard to the net proceeds receivable by the Company from the Placing and the existing facilities available to the Group, that the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission.

10 Litigation

There are no legal or arbitration proceedings in which the Group is involved and which are pending or threatened by or against the Group which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group’s financial position.

11 Taxation

11.1 General

The statements set out below are intended only as a general guide to the tax position based on the current Jersey and UK tax legislation and UK Inland Revenue practice and apply only to certain categories of UK persons. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the Acquisitions, ownership and disposition of Ordinary Shares in the Company. Shareholders who may be subject to tax in any jurisdiction other than the United Kingdom should consult their professional advisers without delay.

The statements do not cover all aspects of Jersey or UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the Acquisitions, ownership or disposition of Ordinary Shares in the Company by particular investors. The statements apply only to Shareholders who are the beneficial owners of the Ordinary Shares but are not applicable to all categories of Shareholders, and in particular are not addressed to (i) Shareholders who do not hold their Ordinary shares as capital assets, (ii) Shareholders who own (directly or indirectly) 10% or more of the Company; (iii) special classes of Shareholders such as dealers in securities or currencies, broker-dealers, or investment companies; (iv) Shareholders who hold Ordinary Shares as part of straddles, hedging or conversion transactions; or (v) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise).

Except where indicated, the statements below in respect of the taxation of dividends and distributions and the taxation of chargeable gains only cover the principal UK tax consequences of holding Ordinary Shares for holders who are resident in the UK for tax purposes although it should be noted that special rules, which are not covered, apply to such holders of shares who are not domiciled in the UK.

The Company has been granted exempt company status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended for the current calendar year. The effect of such special status is that the Company is treated as a non-resident company for the purposes of Jersey tax laws and is therefore exempt from Jersey income tax on its profits arising outside Jersey (and, by concession, on bank deposit interest arising in Jersey) and from any obligation to withhold Jersey income tax from any interest or dividend payments made by it. Such status is applied for on an annual basis (together with payment of the required charge, currently £600). The retention of exempt company status is conditional upon the Comptroller of Income Tax in Jersey being satisfied that no Jersey resident has a beneficial interest in the Company, except as permitted by concessions granted by the Comptroller of Income Tax.

- 11.2 One of the Company's subsidiaries, Dairy Trading, which carries on an export trade, is incorporated in, and has been granted "international business company" status by, the British Virgin Islands. As a result, the profits of Dairy Trading should not be subject to BVI taxation, and provided it is not held to be carrying on its trade in any other territory, to taxation by any other territory.

Another of the Company's subsidiaries, LinkStar, which receives royalties from other Group companies for the rights to use its intellectual property, is incorporated and tax resident in Cyprus. As a result, LinkStar's income should be subject only to Cyprus taxation, currently at the rate of 10%. The directors intend to ensure that the company is managed in such a way as is necessary to ensure that it continues to be so treated.

Both Dairy Trading and LinkStar undertake transactions with other Group companies on terms which are intended to be equivalent to those which would be adopted by unconnected parties dealing at arm's length. Tax authorities generally have the power to challenge such "transfer pricing" and to substitute different values for tax purposes, if they can demonstrate that these values more accurately reflect arm's length prices.

11.3 **European Union Code of Conduct on Business Taxation**

On 3 June 2003, the European Union Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation (the "Code"). Jersey is not a member of the European Union, however, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by the end of 2008 with a general zero rate of corporate tax.

11.4 **Taxation of dividends and distributions**

Under current Jersey tax legislation, no Jersey tax will be withheld from any dividends paid by the Company to Shareholders resident in the UK.

A UK holder, or a holder of Ordinary Shares who is carrying on a trade, profession or vocation in the UK through a branch or agency in connection with which the Ordinary Shares are held will, depending upon the holder's particular circumstances, be subject to UK income tax or corporation tax as the case may be on the amount of any dividends paid by the Company. An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will be taxed under Schedule D case V.

A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning tax liabilities on dividends received from the Company.

11.5 **Taxation of chargeable gains**

A disposal, or deemed disposal, of Ordinary Shares in the Company by a Shareholder who is either resident or ordinarily resident for tax purposes in the UK will, depending on the Shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains in the UK.

Broadly, Shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Ordinary shares unless such Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such Shareholders may be subject to foreign taxation on any gain under local law.

A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five complete tax years and who disposes of the Ordinary Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such Shareholder's year of return to the UK.

11.6 Stamp duty

No UK stamp duty or stamp duty reserve tax will arise on the issue of the Ordinary Shares or on the transfer of uncertificated Ordinary Shares. UK stamp duty may arise on the transfer of Ordinary Shares if they are in certificated form and are transferred by written instrument. The duty would arise at the rate of 0.5% of the amount or value of the consideration.

No stamp duty or similar taxes are payable in Jersey in connection with the issue or transfer of the Ordinary Shares.

11.7 Inheritance tax

The Ordinary Shares will not be assets situated in the UK for UK inheritance tax purposes. A gift of such assets by, or the death of, an individual holder who is domiciled, or is deemed to be domiciled under certain rules relating to long residence or previous domicile, may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. For inheritance tax purposes a transfer of assets at less than market value may be treated as a gift and particular rules may apply where the donor reserves or retains some benefit.

As at the date of this Prospectus, Jersey has no capital gains tax and no inheritance tax or gift tax. Note, however, that probate or letters of administration normally will be required to be obtained in Jersey on the death of an individual having Jersey situate estate. Stamp duty is payable in Jersey on the registration of such probate or letters of administration on the value of the individual's estate in Jersey.

12 Consents

- 12.1 W.H. Ireland, has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name and the references to it in the form and context in which they appear.
- 12.2 Baker Tilly have given and have not withdrawn their written consent to the issue of this document with the inclusion of their reports and letters set out in Parts III, IV and V of this document and to the references to their name in the form and context in which such references are included and accept responsibility for their reports in Parts III and IV for the purposes of paragraphs 45 of Schedule One to the POS Regulations.

13 General

- 13.1 The accounting reference date of the Company is 31 December.
- 13.2 Of the Placing Price of 53.5p, 10p represents the nominal value and 43.5p represents a premium over the nominal value of each Placing Share. The premium arising on the Placing, assuming full subscription, amounts to £4,878,505 in aggregate.
- 13.3 Save as disclosed in this document, there has been no significant change in the trading or financial position of the Company since 31 October 2004 or Ukrproduct since 30 June 2004, respectively, the latest dates to which audited financial information has been prepared for the Company and Ukrproduct.
- 13.4 Ukrproduct Ukraine relies upon the intellectual property rights transferred pursuant to the agreements summarised in paragraphs 8.9 and 8.10 above together with the trademarks Nash Molochnik, Cheese Galittski, Ukrproduct.com, Vershkova Dolina and Narodny Product.
- 13.5 Other than as disclosed in this document, there have been no significant recent trends concerning the development of the business nor any significant acquisitions or disposals of assets of the Company since 31 October 2004 or of Ukrproduct since 30 June 2004, respectively the latest dates to which audited accounts have been prepared for the Company and Ukrproduct.
- 13.6 Save as disclosed in this document, the Directors are not aware of any exceptional factors that have influenced the Company or the Subsidiaries' activities.

- 13.7 The Placing has not been underwritten or guaranteed by any person.
- 13.8 Share certificates in respect of the Ordinary Shares to be issued pursuant to the Placing are expected to be despatched to the applicants by post at their risk on 18 February 2005. In respect of uncertificated shares, it is expected that Shareholders' CREST accounts will be credited on 11 February 2005.
- 13.9 Save as otherwise disclosed in this document, no person, directly or indirectly (other than the Company's professional advisers and trade suppliers) has received, directly or indirectly, from the Company or any of the Subsidiaries within the 12 months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company or any of the Subsidiaries on or after Admission, fees totalling £10,000 or more, securities in the Company to such value at the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission. Densim Group Management SA and Crensel Finance Ltd have each received 15,000,000 Ordinary Shares pursuant to the Share Exchange Agreement.
- 13.10 Other than the proposed application for Admission, the Ordinary Shares have not been admitted to trading on any recognised investment exchange, nor has any application for such admission been made and the Directors do not intend to make any other arrangements for trading in the ordinary shares on such exchange.
- 13.11 The total proceeds of the Placing are expected to amount to £6 million. The expenses of, and incidental to, Admission and the Placing, including commissions, registration and listing fees, printing, advertising and distribution costs, legal and accounting fees and expenses, are estimated to amount to approximately £1,000,000 and are payable by the Company.
- 13.12 The minimum amount which in the opinion of the Directors is required to be subscribed pursuant to the Placing for the purposes specified in paragraph 21 of schedule 1 of the POS Regulations is £2,840,000 which will be applied to the Company as follows:
- 13.12.1 preliminary expenses of Admission and the Placing (including commission) of £840,000;
 - 13.12.2 working capital of £2,000,000;
 - 13.12.3 purchase price of any property purchased or to be purchased of £nil; and
 - 13.12.4 repayment of borrowings of £nil.
- 13.13 The Placing Shares will be placed pursuant to the terms of the Placing Agreement. W.H. Ireland will hold funds received from places on trust until Admission. The Board has resolved to allot the Placing Shares on a conditional basis subject to Admission. The proceeds of the Placing, net of commission and certain expenses, will be transferred to the Company as soon as practicable following the Placing Agreement become unconditional in all respects.

14 Availability of Admission Document

Copies of this document will be available during normal business hours on any business day free of charge to the public at the offices of W.H. Ireland at 11 St. James's Square, Manchester, M2 6WH and at the Company's registered office at 26 New Street, St. Helier, Jersey JE2 3RA for a period of one month from the date of Admission.

This document is dated 31 January 2005

