Kernel Holding S.A.

and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

Year Ended 30 June 2005

STATEMENT OF MANAGEMENT RESPONSIBILITIES
IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. The Management is responsible for preparing the consolidated financial statements of the Group in accordance with International Financial Reporting Standards (IFRS).

2. In preparing these financial statements, the Management is required to:

   - select suitable accounting policies and then apply them consistently;
   - make judgements and estimates that are reasonable and prudent;
   - state that the consolidated financial statements comply with IFRS, subject to any material departures disclosed and explained in the consolidated financial statements; and
   - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

3. The Management confirms that it has complied with the above mentioned requirements in preparing the consolidated financial statements of the Group.

4. The Management is also responsible for:

   - keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
   - taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Management:

Verevskiy Andrey Mikhaylovych
Honorary Chairman

Usacheva Anastasia Ivanovna
Financial Director

Kyiv , Ukraine
September 1, 2007

BAKER TILLY
UKRAINE

Turhenevska str. 71, office 316
Kyiv, 04050, Ukraine
Tel./fax: + 38 (044) 490 6824
+ 38 (044) 502 6907
www.bakertillyukraine.com
info@bakertillyukraine.com

REPORT OF THE AUDITOR

To the board of Directors of

KERNEL HOLDING S.A.
65, Boulevard Grande-Duchesse Charlotte
L-1331 Luxembourg

Report on the consolidated financial statements

Following our appointment by the board of Directors dated April 4, 2007 we have audited the accompanying consolidated financial statements of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group"), which comprise the consolidated balance sheet as at June 30, 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors responsibility for the consolidated financial statements

The board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the auditor, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's and the Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

Management has omitted presentation of the corresponding amounts in the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 30 June 2004. In our opinion, disclosure of such information is required by International Financial Reporting Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, excluding comparative consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated cash-flow statement, as for the year ended June 30, 2004 and consequent influence of previously mentioned questions on consolidated financial statements, the consolidated financial statements give a true and fair view of the financial position of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") of June 30, 2005, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Statement of Management responsibilities is consistent with the consolidated financial statements.

Reg. № 668

Kyiv, Ukraine

September 1, 2007

Managing Partner
LLP BAKER TILLY UKRAINE

«БЕЙКЕР ТІЛЛІ УКРАЇНА»
Ідентифікаційний код 30373906

Alexander Pochkun

Independent member of Baker Tilly International
Turhenevska 71, Kyiv,
Ukraine, 04050
Registration with Ukrainian Chamber of Audit number 2091 of January 26, 2006.

KERNEL HOLDING S.A. AND SUBSIDIARIES

TABLE OF CONTENTS

KERNEL HOLDING S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AS
OF 30 JUNE 2005
(in US dollars and in thousands unless otherwise stated)

	Note	30 June 2005	30 June 2004
ASSETS			
CURRENT ASSETS:			
Cash	5	9 824	2 147
Trade accounts receivable, net	6, 29	6 801	1 890
Prepayments to suppliers and other current assets, net	7, 29	3 108	2 320
Taxes recoverable and prepaid, net	8	5 952	1 341
Inventories	9	11 058	10 102
Biological assets	10	2 340	1 415
Total current assets		**39 083**	**19 215**
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	68 213	55 601
Intangible assets, net	12	7 259	56
Goodwill	13	2 970	64
Other non-current assets	14, 29	5 138	4 297
Total non-current assets		**83 580**	**60 018**
TOTAL ASSETS		**122 663**	**79 233**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade accounts payables	29	2 451	1 420
Advances from customers and other current liabilities	15, 29	4 759	3 605
Short-term borrowings	16	2 261	8 936
Current portion of long-term borrowings	17, 29	18 409	3 150
Total current liabilities		**27 880**	**17 111**
NON-CURRENT LIABILITIES:			
Long-term borrowings	17, 29	35 428	9 885
Obligation under finance lease	18	1 157	0
Deferred tax liability	19	9 807	7 298
Other non-current liabilities	20, 29		367
Total non-current liabilities		**46 392**	**17 550**
COMMITMENTS AND CONTINGENCIES	30		
SHAREHOLDERS' EQUITY:			
Share capital		964	1
Additional paid-in capital	21, 29	31 698	6 303
Retained earnings			22 888
Total shareholders' equity		**32 662**	**29 192**
MINORITY INTEREST	20, 29	15 729	15 380
Total shareholders' equity		**48 391**	**44 572**
TOTAL LIABILITIES AND SHAREHOLDERS'		**122 663**	**79 233**

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 8 to 39 form an integral part of these consolidated financial statements. Independent Auditors' report is on page 1.

KERNEL HOLDING S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005
(in US dollars and in thousands unless otherwise stated)

	Notes	30 June 2005
REVENUE	23, 30	143 763
COST OF SALES	24	(120 582)
GROSS PROFIT		23 181
OTHER OPERATING INCOME	10	303
OPERATING EXPENSES:		
Distribution costs	25	(11 441)
General and administrative expenses	26, 30	(7 087)
Total operating expenses		(18 528)
OPERATING PROFIT		4 956
Finance costs	27, 30	(6 640)
Foreign exchange gain, net		1 124
Other income, net	28	883
PROFIT BEFORE INCOME TAX		323
INCOME TAX BENEFIT PROFIT	19	267
AFTER INCOME TAX MINORITY		590
INTEREST	20	131
NET PROFIT		459

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 8 to 39 form an integral part of these consolidated financial statements.
Independent Auditors' report is on page 1.

KERNEL HOLDING S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2005
(in US dollars and in thousands unless otherwise stated)

	Share Capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Total shareholders' equity
Balance at 30 June 2004	1	6 303	22 888	-	29 192
Contributions of additional paid-in capital (Note 21)		2 336			2 336
Tax effect of contributions of additional paid-in capital (Notes 15,		(336)			(336)
Effect on minority interest of contributions of additional paid-in capital (Notes 20, 21)		396			396
Withdrawals (Note 29)			(904)		(904)
Cumulative translation adjustment				1 519	1 519
Net profit			459		459
Effect of change in reporting entity (Note 2)	963	22 999	(22 443)	(1 519)	-
Balance at 30 June 2005	964	31 698	-	-	32 662

The notes on pages 8 to 39 form an integral part of these consolidated financial statements. Independent Auditors' report is on page 1.

KERNEL HOLDING S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2005
(in US dollars and in thousands unless otherwise stated)

	30 June 2005
OPERATING ACTIVITIES:	
Profit before income tax	323
Adjustments to reconcile profit before income tax to net cash used in operating	
Depreciation and amortization	4 119
Finance costs	6 640
Bad debt expense	569
Loss on disposal of property, plant and equipment	483
Foreign exchange gains, net	(1 124)
Income from "DAK Asset"	(863)
Gain on sales of equity investments	(305)
Operating profit before working capital changes	**9 842**
Changes in working capital:	
Increase in trade accounts receivable	(5 047)
Increase in prepayments and other current assets	(1 828)
Increase in restricted cash balance	(370)
Increase in taxes recoverable and prepaid	(4 242)
Increase in biological assets	(925)
Increase in inventories	(212)
Increase in trade accounts payable	1 325
Increase in advances from customers and other current liabi	1 646
Cash obtained from operations	**189**
Finance costs paid	(5 355)
Income tax paid	(138)
Net cash used in operating activities	**(5 304)**
INVESTING ACTIVITIES:	
Purchase of property, plant and equipment	(9 467)
Proceeds from sales of equity investments	381
Purchase of equity investments	(76)
Proceeds from disposal of property, plant and equipment	1 617
Purchase of intangible and other non-current assets	(628)
Acquisition of Subsidiaries	(12 449)
Net cash used in investing activities	**(20 622)**

KERNEL HOLDING S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005
(in US dollars and in thousands unless otherwise stated)

	30 June 2005
FINANCING ACTIVITIES:	
Proceeds from short-term and long-term borrowings	96 168
Repayment of short-term and long-term borrowings	(62 178)
Withdrawals	(904)
Net cash provided by financing activities	**33 086**
NET INCREASE IN CASH AND CASH EQUIVALENTS	7 160
CASH, at beginning of the year	2 102
TRANSLATION ADJUSTMENT	147
CASH, at end of the year	9 409

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 8 to 39 form an integral part of these consolidated financial statements.
Independent Auditors' report is on page 1.

(in US dollars and in thousands, unless otherwise stated)

1. NATURE OF THE BUSINESS

Kernel Holding S.A. (hereinafter referred to as the "Holding") incorporated under the legislation of Luxembourg on 15 June 2005 is a holding company for a group of entities (hereinafter referred to as the "Subsidiaries"), which together form the Kernel Group (hereinafter referred to as the "Group"). Prior to 15 June 2005 the holding company of the Group was Kernel Group International LLC (hereinafter referred to as the "Former Holding Company"), incorporated under the legislation of the United States of America (state of New York) on 27 January 2003 under its previous name - Landor Trading LLC.

The primary activity of the Group is related to production of bottled sunflower oil traded in Ukraine, production and subsequent export of sunflower-seed oil and meal and wholesale trade of grain (mainly wheat, barley and corn). The majority of the Group operations are located in Ukraine.

The principal operating office of the Group is located at the following address: 16 Nemirovicha-Danchenko str., 01133 Kyiv, Ukraine.

As of 30 June 2005 and 2004 the structure of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of 30 June 2005	Group's Effective Ownership Interest as of 30 June 2004
Kernel Group International LLC	Former holding company. No significant activity since date of foundation	USA	99%	100,00%
Inerco UK LLP	Trade of sunflower-seed oil, meal and grain	Great Britain	98%	99%
Inerco Trade S.A.	Trade of sunflower-seed oil, provision of marketing services	Switzerland	99%	100%
Kernel Assets Division S.A.	Recently set-up holding company. No significant activity since date of foundation	Luxembourg	96,8%	96,8%
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine. Performs transactions with financial instruments	Ukraine	95,8%	95,8%
"Kernel-Trade", LLC	Trade of sunflower-seed oil, meal and grain	Ukraine	98,9%	99,0%
CJSC "Poltava oil crushing plant — Kernel Group"	Production plant. Production of sunflower - seed oil and meal	Ukraine	76,6%	67,3%
CJSC "MZRM - Striletskaya Step"		Ukraine	76,8%	н.п.

LLC "Ukrainian Agricultural Company"	Holding company for agricultural farms	Ukraine	0,3%	4,8%
LLC JE "Inerco-Ukraine"	Recently set-up holding company. No significant activity since the date	Ukraine	99,9%	100,0%
LLC "Yuzhtrans-Terminal"	Dormant company	Ukraine	95,8%	95,8%
"Poltavaavtotransservis" CJSC	Rendering transport services to other Group companies	Ukraine	76,2%	0,1%
CJSC "JSC Selkhoztehnika"		Ukraine	77,0%	71,2%
LLC "Agroservise"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower-seed, barley, soy-bean	Ukraine	19,0%	22,7%
LLC "Zernoservise"		Ukraine	18,4%	22,1%
LLC "Unigrain-Agro" (Semenovka)		Ukraine	19,0%	22,7%
LLC "Unigrain-Agro" (Globino)		Ukraine	19,0%	22,7%
LLC "Mrija-Agro"		Ukraine	19,0%	22,7%
JSC "Reshetilovski elevator"	Grain elevators. Services on cleaning, drying and storage of grain	Ukraine	57,4%	57,4%
JSC "Khorolskiy elevator"		Ukraine	46,8%	46,8%
CJSC "Mirgorodsky elevator" (At 30 June 2004 registered as JSC "Mirgorodsky kombinat khliboproduktiv №2")		Ukraine	66,7%	38,4%
JSC "Globinsky elevator kliboproduktiv"		Ukraine	45,1%	45,1%
CJSC "Selesthchinski elevator"		Ukraine	57,6%	57,6%
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	65,9%	47,9%
JSC "Golovanivske hlibopriemalne pidpriemstvo"		Ukraine	95,1%	95,1%
"Galeschina-Agro" CJSC		Ukraine	71,9%	71,8%
"Gogoleve-Agro" CJSC		Ukraine	71,4%	71,1%
"Sagaydak-Agro" CJSC		Ukraine	66,0%	66,0%
"Karlivka-Agro" CJSC		Ukraine	58,9%	67,9%
"Novo-Sanzharski elevator" CJSC		Ukraine	39,4%	41,9%
"Lazorkovski Elevator" CJSC		Ukraine	76,7%	71,9%
"Zherebkivsky elevator LTD"		Ukraine	77,6%	77,6%
"Bobrynetsky elevator LTD"		Ukraine	77,6%	77,6%
"Kononivsky elevator LTD"		Ukraine	77,6%	77,6%
JSC "Pidgorodnanski elevator"		Ukraine	448.0% (direct Group ownership interest amounts to 50.1%)	48%
LLC "Bandurskiy elevator"		Ukraine	95,8%	95,8%
CJSC "Semenivski elevator"		Ukraine	55,5%	25,4%
LLC "Zhytnitsa"		Ukraine	76,8%	н.п.

LLC "Kobelyaki hleboproduct"	Grain elevators. Services on cleaning, drying and storage of grain	Ukraine	0,0%	н.п.
LLC "Krivoy Rog hleboproduct"		Ukraine	0,0%	н.п.
LLC "Krasnograd hleboproduct"		Ukraine	19,0%	н.п.
LLC "Sahnovshina hleboproduct"		Ukraine	19,0%	н.п.
LLC "Belovodskiy elevator"		Ukraine	94,9%	н.п.
"Kernel-Vostok" LLC	Newly established trading company for export of bottled sunflower oil to Russia. No significant activity since date of foundation	Ukraine	96,8%	н.п.

The Group consolidated the financial statements of LLC "Ukrainian Agricultural Company", LLC "Agroservise", LLC "Zernoservise", LLC "Unigrain-Agro" (Semenovka), LLC "Unigrain-Agro" (Globino), LLC "Mrija-Agro", JSC "Khorolskiy elevator", JSC "Globinsky elevator kliboproduktiv", "Novo-Sanzharski elevator" CJSC, LLC "Kobelyaki hleboproduct", LLC "Krivoy Rog hleboproduct", LLC "Krasnograd hleboproduct", and LLC "Sahnovshina hleboproduct" due to the fact that other shareholders of these Subsidiaries - related parties to the Group, who possess majority share of the voting rights in each of these Subsidiaries, are nominal holders of these shares on behalf of the ultimate beneficial owners of the Group (hereinafter referred to as the "Beneficial Owner"). "Kernel-Capital", LLC received power of attorney from these related parties to act on its behalf in exercising ownership rights related to these shares. The Group's management believes that it has power to govern operating and financial policies of these Subsidiaries.

As of 30 June 2005 and 2004 the Group employed 4,389 and 2,712 employees, respectively.

These consolidated financial statements were authorized for issue by Verevskiy Andrey Mikhaylovych the Honorary Chairman of Kernel Group, on 30 December 2005.

2. CHANGE IN REPORTING ENTITY AND SHARE CAPITAL

As of 30 June 2004 the holding company of the Group was Kernel Group International LLC (USA), whose contributed capital was fully owned by Sherval Management Ltd. (hereinafter referred to as the "Former Nominal Owner") - a limited liability company registered under the legislation of British Virgin Islands.

Since 15 June 2005 the holding company of the Group became Kernel Holding S.A. (Luxembourg) (the "Holding"), whose share capital consists of 8,000 authorized, allotted and fully paid ordinary shares each carrying one vote and having a nominal value of EURO ("EUR") 100. The shares were distributed as follows:

	30 June 2005	
Nominal shareholder	**Shares allotted and fully paid**	**Share owned,,%**
Bissani Investment S.A. (public limited company registered under the legislation of Costa Rica) (the "New Nominal Owner")	7 999	99,99%
Individual	1	0,01%
Total	8 000	100,00%

As of 30 June 2005 and 2004 100% of the beneficial interest in the Former and New Nominal Owners was owned by the Beneficial Owner.

The change of the Group holding company and thus the change in the reporting entity was made for the purposes of optimization of the tax and legal structure of the Group. It was realized by effectively free of charge transfer to the Holding of 99% of the ownership interest in the Former Holding Company and transfer of major shareholdings in Group Subsidiaries owned by the Former Holding Company with simultaneous cash contribution to the share capital of the Holding made by the New Nominal Owner on behalf of the Beneficial Owner. This contribution in the amount of EUR 800 thousand (USD 964 thousand) was performed through cash withdrawals by the Beneficial Owner from the Group retained earnings. The remaining 1% of the ownership interest in the Former Holding Company was transferred from the Former Nominal Owner to another nominal owner.

The change in the reporting entity resulted in a capitalization of reserves within equity included into additional paid-in capital as of 30 June 2005 (Note 21).

The effect of retrospective application of this change was assessed by management as insignificant and thus no restatement of comparative information was presented.

3. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation and Accounting - The accompanying consolidated financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group Subsidiaries' local statutory accounting records, reflects adjustments necessary for such financial statements to be presented in accordance with IFRS.

Accounting Estimates - The application of IFRS requires the use of reasonable assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

Measurement and Presentation Currency - The local currency of the Holding is Euro. However, the management has utilized the United States dollar ("USD") as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate with the exception of Inerco Trade S.A. (Switzerland), Inerco UK LLP (Great Britain) and "Kernel - Trade", LLC (as of 30 June 2004 only). Management has utilized USD as the measurement currency for these Subsidiaries under IAS No. 21 as their major sources of finance, prices of sales contracts with customers, significant purchases, and expenses were denominated in USD.

During the year ended 30 June 2005 the measurement currency of "Kernel - Trade", LLC was changed by management from USD to its local currency - UAH as a result of significant growth of the share of local sales in its sales structure. The effect of retrospective application of this change was assessed as insignificant and thus no restatement of comparative information is presented.

Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation - The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group ("its Subsidiaries") made up as of 30 June 2005 and 2004. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet.

On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the acquisition.

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortised and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that operation are treated as assets and liabilities of the foreign operation. Therefore, they are expressed in the measurement currency of the foreign operation and are translated at the closing rate. Excess of Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the acquired Subsidiaries over cost of acquisition is recognised immediately in the income statement of the period when the acquisition takes place.

Intangible Assets - Intangible assets acquired separately from a business are capitalized at cost. Amortization of intangible assets except for the "Schedry Dar" trademark is calculated on a straight-line basis over 2-10 years, and is included in "General and administrative expenses". The "Schedry Dar" trademark has indefinite useful life and thus is not amortized but tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the trademark may be impaired.

Foreign Currencies Translation - Transactions in currencies other than the measurement currencies of the Group companies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Subsequently, monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date.

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in shareholders' equity and included in "Cumulative translation adjustment".

The exchange rates used in preparation of these financial statements are as follows:

Currency	Closing rate as of 30 June 2005	Average rate for the year ended 30 June 2005	Closing rate as of 30 June 2004
UAH/USD	5,05500	5,2544	5,3207
CHF/USD	1,2835	1,2102	1,256
EUR/USD	0,8296	0,7856	0,822

Cash - Cash includes unrestricted cash balances kept with banks and on hand.

Trade Accounts and Other Accounts Receivable - Trade and other accounts receivable are stated at their cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Prepayments to Suppliers and Other Current Assets - Prepayments to suppliers and other current assets are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Investments - In accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement", investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by the Group. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Held-to-maturity investments, loans and receivables originated by the Group are included in non-current assets unless they mature within 12 months from the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months from the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: disclosure and presentation" and IAS No. 39 "Financial instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of a particular instrument.

Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment. Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments and originated loans are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Investments in Non-consolidated Subsidiaries and Associates - Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Group intends to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair value or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary. As of 30 June 2005 there were no investments in non-consolidated subsidiaries and associates.

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost comprises purchase cost and, where applicable, those expenses that have been incurred in bringing the inventory to their present location and condition. Cost is calculated using FIFO method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Biological Assets - The Group classifies wheat, barley, maize, soy, sunflower-seeds and other crops, which it raises, as biological assets. In accordance with IAS No. 41 "Agriculture", biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs, except for the case where the fair value cannot be measured reliably. Biological assets, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets were classified as current as their average useful life is less than one year.

Taxes Recoverable and Prepaid - Taxes recoverable and prepaid are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Property, Plant and Equipment - Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

Property, plant and equipment acquired in a business combination is initially recognised at fair value determined based on valuations performed by independent professionally qualified appraisers.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to income statement as incurred.

Property, plant and equipment is depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20-30 years
Production machinery and equipment	10-20 years
Agricultural vehicles and equipment	3-5 years
Fixtures, fittings and other fixed assets	5-20 years
Transport vehicles	4-7 years
Construction in progress ("CIP") and uninstalled equipment	Not depreciated

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets commences when the assets are put into operation.

Impairment of Non-Current Assets - At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Trade and Other Accounts Payable - Trade and other accounts payable are stated at their nominal value.

Short-term and Long-term Borrowings - Short-term and long-term borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including payments at origination and settlement, are accounted for on an accrual basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

The difference between nominal amount of consideration received and the fair value of loans obtained from related parties of the Group at other than market terms is recognized in the period the loan is obtained as initial recognition adjustment discounting the loan based on market rates at inception.

Financial Instruments - Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial instruments are recognised using settlement date accounting.

Revenue Recognition - Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods and finished products - Revenue is recognized when the significant risks and rewards of ownership of goods for resale and finished products have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services - Revenue is recognized when services are rendered.

Income Taxes - Income taxes have been computed in accordance with the laws currently enacted in the countries, where the Holding and its Subsidiaries are incorporated.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against deductible temporary differences.

Deferred tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- • the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are included in expenses for the period to which they relate on a straight-line basis over the term of the relevant lease.

Contingencies - Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions - A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Reclassifications - Certain reclassifications have been made to the corresponding amounts for the year ended 30 June 2004 so as to conform to the current year presentation.

5. CASH

The balances of cash as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Cash with banks in USD	5 790	225
Cash with banks in UAH	2 974	1 875
Cash with banks in other currencies	36	47
Cash on a transit bank account	964	-
Cash on hand	60	-
Total	9 824	2 147
Less restricted cash on Security bank account	(415)	(45)
Cash for the purposes of cash flow statement	9 409	2 102

As of 30 June 2005 cash with banks in USD in the amount of USD 2,103 thousand (as of 30 June 2004: USD 50 thousand) kept on Security bank account with a Belgian bank, was pledged to secure the long-term loan facility obtained from this bank (Note 17). As of 30 June 2005 a part of cash on Security bank account in the amount of USD 415 thousand (as of 30 June 2004: USD 45 thousand) was restricted in use based on the loan agreement with the Belgian bank and thus was excluded from cash for the purposes of cash flow statement.

As of 30 June 2005 cash held on a transit bank account was represented by EUR 800 thousand contributed to the share capital of the Holding on 14 June 2005 (Note 2) and transferred to a current bank account on 26 July 2005.

6. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Trade accounts receivable	7 318	2 271
Allowance for estimated irrecoverable amounts	(517)	(381)
Total	**6 801**	**1 890**

As of 30 June 2005 accounts receivable from one European customer accounted for approximately 18% of the total carrying amount of trade accounts receivable. As of 30 June 2004 ccounts receivable from one Ukrainian and one European customer accounted for approximately 19% and 12% of the total carrying amount of trade accounts receivable, respectively.

7. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS, NET

The balances of prepayments to suppliers and other current assets as of 30 June 2005 and 2004 were as follows

	30 June 2005	30 June 2004
Prepayments to suppliers	2 489	651
Investments available-for-sale		284
Short-term advance to a related party	692	
Loans to related companies and management	128	1 030
Other accounts receivable and other current assets	440	578
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(641)	(223)
Total	**3 108**	**2 320**

Short-term advance to a related party represents returnable interest-free financial aid in UAH with a maturity of less than one month. The advance was returned to the Group shortly after 30 June 2005.

8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2005 and 2004 were as follows :

	30 June 2005	30 June 2004
VAT ("Value-added tax") recoverable and prepaid	6 005	1 435
Other taxes recoverable and prepaid	88	32
Allowance for estimated irrecoverable amounts of VAT recoverable	(141)	
Total	**5 952**	**1 467**

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on internal market in Ukraine. Allowance for estimated irrecoverable amounts of VAT recoverable was created in the amount of USD 141 thousand as of 30 June 2005 (as of 30 June 2004: USD 126 thousand) as a result of uncertainty of recoverability of this balance from the Ukrainian State budget.

9. INVENTORY

The balances of inventories as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Raw materials	2 466	5 945
Finished products	6 546	2 690
Goods for resale	776	556
Packaging materials	251	59
Fuel	247	135
Other inventories	772	717
Total	**11 058**	**10 102**

As of 30 June 2005 inventories with the carrying amount of USD 4,583 thousand (as of 30 June 2004: USD 629 thousand) were pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks (Notes 16, 17). In addition, as of 30 June 2005 the Group pledged future purchases of raw materials, goods for resale and finished products produced for the total amount of USD 3,271 thousand in prices as of 30 June 2005.

10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2005 and 2004 were as follows

	30 June 2005		30 June 2005	
	Hectares	**Amount**	**Hectares**	**Amount**
Barley crops	2 407	553	3 574	596
Wheat crops	3 134	749	1 736	377
Maize crops	1 810	447	2 019	140
Sunflower-seeds crops	1 714	209	2 110	99
Soy crops	1 524	241	1 546	99
Other crops	1 385	141	905	104
Total	11 974	2 340	11 890	1 415

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2005:

As of 30 June 2004	**1 415**
Increase due to purchases and subsequent expenditures capitalized in biological assets	2 470
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in other operating income)	303
Decrease due to harvest	(1 965)
Translation adjustment	117
As of 30 June 2005	**2 340**

11. PROPERTY, PLANT AND EQUIPMENT, NET

As of 30 June 2005 property, plant and equipment with the carrying amount of USD 62,679 thousand (as of 30 June 2004: USD 43,979 thousand) was pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks and the Belgian bank (Notes 16, 17).

The Group's uninstalled production equipment with the carrying amount of USD 1,392 thousand as of 30 June 2005 (as of 30 June 2004: nil) was held under finance lease (Note 18).

11. PROPERTY, PLANT AND EQUIPMENT, NET

The following table represents movements in property, plant and equipment for the year ended 30 June 2005:

	Buildings and constructions	Production machinery and equipment	Agricultural vehicles and equipment	Transport vehicles	Fixtures, fittings and other fixed assets	CIP and uninstalled equipment	Total
Cost							
As of 30 June 2004	31 918	9 639	1 501	2 111	1 390	9 066	55 625
Cost of property, plant, and equipment of Subsidiaries acquired (Note 28)	4 033	2 419	-	177	160	79	6 868
Additions	-	-	-	-	-	9 083	9 083
Transfers	3 742	4 370	35	442	750	(9 339)	-
Disposals	(1 254)	(401)	(4)	(165)	(130)	(247)	(2 201)
Translation adjustment	2 033	362	46	130	140	555	3 266
As of 30 June 2005	40 472	16 389	1 578	2 695	2 310	9 197	72 641
Accumulated depreciation							
As of 30 June 2004	-	-	(12)	(6)	(6)	-	(24)
Charge for the year	(1 549)	(1 460)	(332)	(472)	(404)	-	(4 217)
Eliminated on disposals during the year	18	20	2	42	19		101
Translation adjustment	(143)	(61)	(30)	(26)	(28)		(288)
As **of 30 June 2005**	(1 674)	(1 501)	(372)	(462)	(419)	-	(4 428)
Net book value							
As of 30 June 2005	**38 798**	**14 888**	**1 206**	**2 233**	**1 891**	**9 197**	**68 213**
As of 30 June 2004	**31 918**	**9 639**	**1 489**	**2 105**	**1 384**	**9 066**	**55 601**

12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the year ended 30 June 2005:

	Trademarks	Other intangible assets	Total
Cost			
As of 30 June 2004		69	69
Intangible assets of Subsidiaries acquired (Note 28	6877		6 877
Additions		6	6
Disposals		(15)	(15)
Translation adjustment	344	4,0	348
As of 30 June 2005	7 221	64	7 285
Accumulated Amortisation			
Amortisation charge Disposals Translation a		(13)	(13)
As of 30 June 2005		(27)	(27)
Net Book Value		15	15
As of 30 June 2005		(1)	(1)
As of 30 June 2004	-	(26)	(26)
Net Book Value			
As of 30 June 2005	7 221	38	7 259
As of 30 June 2004	-	56	56

Included in intangible assets of Subsidiaries acquired during the year ended 30 June 2005 is the "Schedry Dar" trademark with the value of USD 6,877 thousand. This trademark is used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market and is pledged as security for long-term loans as of 30 June 2005 (Note 17).

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that as a result of further promotion of the "Schedry Dar" trademark the current market share possessed by the bottled sunflower oil sold under this trademark will be stable as well and thus the Group will be able to obtain economic benefits from it during an indefinite period of time. Accordingly, the trademark "Schedry Dar" is considered to have indefinite useful life and thus is not amortized but tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the trademark may be impaired.

13. GOODWILL

The following table represents movements in goodwill for the year ended 30 June 2005:

As of 30 June 2004	**64**
Goodwill arising on acquisition of Subsidiaries (Note 28)	2 764
Translation adjustment	142
As of 30 June 2005	**2 970**

14. OTHER NON-CURRENT ASSETS

The balances of other non-current assets as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Grain elevators lease rights ("DAK Asset") (Note 30)	2 591	1 895
Prepayments for property, plant and equipment	2 036	195
Guarantee bank account	428	428
Prepayment for acquisition of Subsidiaries (Note 28)	-	1 500
Other non-current assets	83	279
Total	**5 138**	**4 297**

Grain elevators lease rights ("DAK Asset")

On 10 January 2003 the Group acquired the right to claim USD 5,369 thousand from the State Joint Stock Company "DAK "Khlib Ukrainy" (hereinafter referred to as the "DAK Debt"). The "DAK Debt" represents amounts initially due by "DAK "Khlib Ukrainy" (hereinafter referred to as the "DAK") to its suppliers of chemical fertilizers, which originally matured for settlement in 1998.

The "DAK Debt" was effectively purchased for a consideration of USD 979 thousand, out of which USD 809 thousand were included in advances from customers and other current liabilities as of 30 June 2004 (Note 15).

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of four grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4,872 thousand.

The description of the lease terms is as follows.:

Assets leased	Storage capacity of leased grain elevators	End of lease period	Monthly rental payable
Property of three grain elevators	296 thousand tons of wheat (aggregated)	December 2012	USD 38 thousand (aggregated)
Property of one grain elevator	60 thousand tons of wheat	December 2006	USD 8 thousand

The "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period. The implicit annual discount rate approximates market interest rate in UAH at inception and equals 22%.

As of 30 June 2004 the nominal value of the "DAK debt" totaling USD 5,748 was represented by initial amount of debt of USD 5,369 thousand and the related penalties for non-payment of USD 379 thousand. The nominal value of the operating lease payments available for set-off with "DAK" under the described lease agreements totaled USD 4,872 thousand as of 30 June 2004. The asset related to difference of USD 876 thousand between the nominal value of the "DAK Debt" and the nominal value of the operating lease payments available for set-off had been written-off as of 30 June 2004 due to low probability of its recoverability. However, during the year ended 30 June 2005 the Group managed to realize USD 170 thousand of this amount by set-offs against additional accounts payable for services obtained from "DAK". This transaction was recognized as "Other Income" in the consolidated income statement of the Group for the year ended 30 June 2005 in the note line "Income from "DAK Asset" (Note 27).

Guarantee bank account

The guarantee bank account represents cash kept on interest-free deposit account, maturing in July 2007, at the Belgian bank in order to secure the long-term credit facility obtained from this bank for financing the Group's acquisition of machinery and equipment (Note 17).

15. ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

The balances of advances from customers and other current liabilities as of 30 June 2005 and 2004 were as follows:

	30 June 2005	**30 June 2004**
Advances from customers	1 848	482
Accrued payroll, payroll related taxes and bonuses	1 280	569
Taxes payable and provision for tax liabilities	434	152
Accounts payable for property, plant and equipment	268	203
Obligation under finance lease payable within one year (Note 18)	235	-
Provision for unused vacations and other provisions	211	137
Provision for contingent liabilities related to Government agricultural assistance programs (Note 30) Accounts payable and short-term promissory notes issued	178	181
Provision for contingent liabilities related to Government agricultural assistance programs (Note 30) Accounts payable and short-term	-	532
	-	809
Other accounts payable and other current liabilities	305	540
Total	**4 759**	**3 605**

As of 30 June 2005 taxes payable and provision for tax liabilities included provision for income tax liability amounting to USD 336 thousand, which related to contributions of additional paid-in capital (Notes 21, 29).

16. SHORT-TERM BORROWINGS

The balances of short-term borrowings as of 30 June 2005 and 2004 were as follows

	30 June 2005	30 June 2004
Bank credit lines	2 249	8 936
Overdraft	7	
Interest accrued	5	
Total	**2 261**	**8 936**

The balances of short-term borrowings as of 30 June 2005 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	13,0%	USD	August 2005	879
Ukrainian subsidiary of an European bank	LIBOR + 8,5%	USD	September 2005	800
Ukrainian bank	12,5%	USD	September 2005	570
Total bank credit lines				2 249
European bank	LIBOR + 2,4%	USD		7
Total overdrafts				7
Interest accrued				5
Total				**2 261**

The balances of short-term borrowings as of 30 June 2004 were as follows :

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	13,5%	USD	July 2004 -March 2005	7 121
Ukrainian bank	11,5%	USD	July 2004	1 541
Ukrainian bank	22,0%	UAH	July 2004	274
Total				**8 936**

As of 30 June 2005 the overall maximum credit limit for short-term bank credit lines and overdrafts amounted to USD 5,570 thousand (as of 30 June 2004: USD 21,640 thousand)

As of 30 June 2005 and 2004 short-term borrowings were secured as follows:

Carrying value Assets pledged	Carring ammount	
	30 June 2005	30 June 2004
Property, plant and equipment (Note 11)	2 914	33 370
Ownership rights on intercompany sales proceeds	-	3 900
Inventory (Note 9)	214	629
Total	**3 128**	**37 899**

In addition, controlling stakes in the following Subsidiaries were pledged to secure the short-term and long-term bank loans (Note 17) of the Group as of 30 June 2005 and 2004:

Name of Subsidiary, stake in which was pledged

30 June 2005	30 June 2004
CJSC "Poltava oil crushing plant - Kernel Group"	CJSC "Poltava oil crushing plant - Kernel Group"
JSC "Reshetilovski elevator"	JSC "Reshetilovski elevator"
JSC "Khorolskiy elevator"	JSC "Khorolskiy elevator"
JSC "Globinsky elevator kliboproduktiv"	JSC "Globinsky elevator kliboproduktiv"
"Karlivka-Agro" CJSC	"Karlivka-Agro" CJSC
"Sagaydak-Agro" CJSC	"Sagaydak-Agro" CJSC
"Galeschina-Agro" CJSC	"Galeschina-Agro" CJSC
"Lazorkovski Elevator" CJSC	"Lazorkovski Elevator" CJSC
"Novo-Sanzharski elevator" CJSC	"Novo-Sanzharski elevator" CJSC
CJSC "Mirgorodskiy elevator"	JSC "Mirgorodsky kombinat khliboproduktiv №2"
JSC "Golovanivske hlibopriemalne pidpriemstvo"	"Poltavaavtotransservis" CJSC
JSC "Pidgorodnanski elevator"	CJSC "JSC Selkhoztehnika"
JSC "Poltavske khlibopriemalne pidpriemstvo"	
"Gogoleve-Agro" CJSC	

Another owner of these Subsidiaries, the nominal holder of the shares on behalf of the Beneficial Owner additionally pledged its stake in the Group Subsidiaries to secure the short-term and long-term bank loans of the Group as of 30 June 2005 and 2004.

17. LONG-TERM BORROWINGS

The balances of long-term borrowings as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Long-term bank loans	49 344	6 353
Long-term borrowings from related parties	4 089	6 634
Interest accrued	404	48
Less: Current portion of long-term borrowings	(18 409)	(3 150)
Total	**35 428**	**9 885**

Long-term bank loans

The balances of long-term bank loans as of 30 June 2005 were as follows:

Lender	Type of loan	Interest Rate	Loan currency	Maturity Date	Amount due
Ukrainian bank	Credit line	12,0%	USD	August 2005	12 654
Ukrainian bank	Credit line	12,0%	USD	August 2006	9 809
Ukrainian bank	Credit line	12,0%	USD	March 2006	6 999
Ukrainian bank	Credit line	16,5%	UAH	November 2007	5 780
Ukrainian bank	Credit line	12,0%	USD	February 2007	4 949
Ukrainian bank	Credit line	12,5%	USD	September 2007	3 500
Belgian bank	Term loan	4,23%	USD	July 2007	3 225
Ukrainian bank	Credit line	16,0%	UAH	July 2005	692
Ukrainian bank	Credit line	12,0%	USD	April 2006	625
Ukrainian bank	Term loan	14,0%	USD	September 2005	567
Ukrainian bank	Credit line	16,0%	UAH	August 2005	544
Total					**49 344**

Included in above amounts are long-term loans from Ukrainian banks with original maturity date within one year after 30 June 2005 for the carrying amount of USD 7,565 thousand which were excluded from current portion of long-term borrowings and reclassified to long-term borrowings as of 30 June 2005 due to the fact that the Group intended to refinance these obligations on a long-term basis and that intention was supported by refinancing agreements concluded subsequent to 30 June 2005 (Note 33).

The balances of long-term bank loans as of 30 June 2004 were as follows:

Lender	Type of loan	Interest Rate	Loan currency	Maturity Date	Amount due
Belgian bank	Term loan	3,98%	USD	July 2007	4 333
Ukrainian bank	Credit line	13,5%	USD	April 2006	1 375
Ukrainian bank	Credit line	13,5%	USD	February 2007	645
Total					**6 353**

a) Long-term loan from a Belgian bank

Loan from the Belgian bank was obtained in July 2003 to finance acquisition of machinery and equipment for production of sunflower-seed oil and meal. The loan agreement stipulated the Group entering into agreement with an European customer to sell annually approximately 12,000 tons of sunflower seed oil (hereinafter referred to as the "Off-take Agreement"), to be delivered in quarterly amounts of approximately 3,000 tons. According to the Off-take Agreement all the cash proceeds from sales to the European customer should be paid on Security bank account with the Belgian bank. As of 30 June 2005 the loan was secured by property, plant and equipment with the carrying amount of USD 5,995 thousand (as of 30 June 2004: USD 5,679 thousand) (Note 11) financed by the loan, Guarantee bank account in the amount of USD 428 thousand (as of 30 June 2004: USD 428 thousand) (Note 14), Security bank account in the amount of USD 2,103 thousand (as of 30 June 2004: USD 50 thousand) (Note 5), insurance of a Belgian insurance institution and sales proceeds under the Off-take Agreement.

As of 30 June 2005 total quantity of sunflower oil to be supplied after 30 June 2005 under the terms of the Off-take agreement was within the range from 8,550 tons to 9,450 tons which corresponded to the amount of USD 5,318 thousand to USD 5,878 thousand in prices as of 30 June 2005 (Note 30).

б) Long-term loans from Ukrainian banks

Long-term loans from Ukrainian banks as of 30 June 2005 were represented by revolving credit line facilities from two banks (as of 30 June 2004: from one bank) with the overall maximum credit limit of USD 56,530 thousand (as of 30 June 2004: USD 6,500 thousand).

As of 30 June 2005 and 2004 long-term loans from Ukrainian banks were secured as follows:

Carrying value Assets pledged	**Carrying ammount**	
	30 June 2005	**30 June 2004**
Property, plant and equipment (Note 11)	53 770	10 609
Inventory (Note 9)	4 369	-
Intangible assets (Note 12)	7 221	-
Controlling stakes in Subsidiaries (Note 16)	Not quantifiable	Not quantifiable
Total	**65 360**	**10 609**

<u>Long-term borrowings from related parties</u>

Long-term borrowings from related parties as of 30 June 2004 were represented by two unsecured loan facilities denominated in USD and bearing interest rate of 14% payable to a company located in a Baltic country (hereinafter referred to as the "Lender").

During the year ended 30 June 2005 one of these loan facilities was repaid. As of 30 June 2005 the Beneficial Owner of the Group arranged to replace the Group liability under the other facility for an interest-free loan payable to the Beneficial Owner for the same nominal amount of USD 6,118 thousand (including capitalized interest in the amount of USD 769 thousand) repayable in October 2012. The loan from the Beneficial Owner was recognized in the consolidated financial statements of the Group at its fair value being the nominal loan amount discounted at annual market rate at inception assessed at 12%. The difference between the nominal amount of the loan received from the Beneficial Owner and its fair value in the amount of USD 2,029 thousand was recognized in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 21).

The liability to the Lender under the replaced loan facility was assigned to the Beneficial Owner himself. As of 30 June 2005 the Beneficial Owner disagreed with the Lender on the amount of the loan liability and the related interest payable to the Lender. The arrangement between the Group and the Beneficial Owner stipulates that in case of adverse outcome of this disagreement the Group will be liable for repayment of additional amounts of this loan and the related interest, if any, accrued to the Beneficial Owner. As of 30 December 2005 the arguable balance of the loan liability and the related interest amounts to approximately USD 430 thousand (Note 30).

18. OBLIGATION UNDER FINANCE LEASE

	Minimum lease payments	Present value of minimum lease payments
	30 June 2005	30 June 2004
Amounts payable under finance leases		
Within one year	343	235
Later than one year and not later than five years	1 370	1 157
	1 713	1 392
Less: Future finance charges	(321)	
Present value of lease obligations	1 392	1 392
Less: Amount due for settlement within one year (Note 15)		(235)
Amount due for settlement after one year		1 157

In April-July 2005 CJSC "Poltava Oil-Extraction Plant - Kernel Group", a Subsidiary, entered into four finance lease contracts to acquire equipment for production of bottled sunflower oil with an Ukrainian subsidiary of an European bank for the total amount of USD 5,628 thousand.

During the year that ended on 30 June 2005 the Group obtained production equipment under one of these contracts for the amount of USD 1,392 thousand. Subsequent to 30 June 2005 the Group obtained equipment under the three remaining finance lease contracts for the total amount of USD 4,236 thousand subject to future finance charges of USD 1,029 thousand (Note 33).

The finance lease liability is denominated in USD and bears interest rate of 8.25% per annum.

19. INCOME TAXES

As of 30 June 2005 and 2004 the major components of deferred tax assets and liabilities were as follows:

	30 June 2005	30 June 2004
Deferred tax assets arising from		
Valuation of accounts receivable	220	127
Valuation of advances from customers	348	139
Inventory valuation	294	0
Valuations of property, plant and equipment	183	165
Tax losses carried forward	146	779
Valuations of accrued expenses and other temporary differences	583	361
Deferred tax asset	1 774	1 571
Less: Valuation allowance	(670)	(966)
Net deferred tax asset after valuation allowance	1 104	605

Deferred tax liability arising from

Valuations of property, plant and equipment	(8 708)	(7 497)
	-	(217)
Inventory valuation	(1 806)	(12)
Valuation of intangible assets	(397)	(177)
Valuation of prepayments to suppliers and prepaid expenses	(10 911)	(7 903)
Deferred tax liability Net deferred tax liability	(9 807)	(7 298)

As of 30 June 2005 valuation allowances totalling USD 670 thousand (as of 30 June 2004: USD 966 thousand) were recorded in relation to temporary differences arising on valuation of tax losses carried forward, a part of property, plant and equipment, and a part of accounts receivable due to uncertainty of realization of these deferred tax assets.

As of 30 June 2005 all deferred taxes arose on temporary differences related to assets and liabilities of Subsidiaries located in Ukraine. The corporate income tax rate in Ukraine was 25% as of 30 June 2005 and 2004.

Income taxes applicable to the Kernel Group International LLC and Inerco UK LLP are taxed directly to the owners of these companies.

The components of income tax expense for the year ended 30 June 2005 were as follows:

	30 June 2005
Current income tax expense	138
Deferred tax benefit	(405)
Income tax benefit	(267)

The income tax charge for the year ended 30 June 2005 is reconciled to the profit before income tax per consolidated income statement as follows:

	30 June 2005
Profit before income tax	323
Tax at the statutory income tax rate in Ukraine of 25%	81
Expenditures not allowable for income tax purposes	302
Non-taxable income	(354)
Change in valuation allowance	(296)
Income tax benefit	(267)

The following table represents movement in deferred tax liability for the year ended 30 June 2005:

Deferred tax liability as of 30 June 2004	**7 298**
Deferred tax liability of Subsidiaries acquired (Note 28)	2 456
Deferred tax benefit	(405)
Translation adjustment	458
Deferred tax liability as of 30 June 2005	**9 807**

20. MINORITY INTEREST

The following table represents movements in minority interest for the year ended 30 June 2005

As of 30 June 2004	**15 380**
Effect of contributions of additional paid-in capital (Notes 21, 29)	(396)
Minority share in profits of Subsidiaries during the year ended 30 June 2005	131
Translation adjustment	614
As of 30 June 2005	**15729**

21. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital as of 30 June 2005 was formed by additional contributions from the Beneficial Owner of the Group and its related parties, and the effect of change in reporting entity (Note 29).

The following table represents movements in additional paid-in capital for the year ended 30 June 2005:

As of 30 June 2004	**6 303**
Release of trade and other accounts payable due from the Group (Note 29)	1312
Release of loans issued by the Group (Note 29)	(1 005)
Fair value adjustment on loan payable to the Beneficial Owner (Notes 17, 29)	2 029
Total effect of contributions of additional paid-in capital	**2336**
Tax effect of contributions of additional paid-in capital (Notes 15, 29)	(336)
Effect on minority interest of contributions of additional paid-in capital (Notes 20, 29)	396
Effect of changes in reporting entity (Note 2)	22999
As of 30 June 2005	**31 698**

22. REVENUE

The revenue for the year ended 30 June 2005 was as follows:

	30 June 2005
Revenues from sales of finished products	74 071
Revenues from sales of goods for resale	56 448
Revenues from services	12 540
Other revenue	704
Total	143 763

During the year that ended on 30 June 2005 revenues from sales to two European customers accounted for approximately 34% of the total revenue.

23. COST OF SALES

The cost of sales for the year ended 30 June 2005 was as follows:

	30 June 2005
Cost of goods for resale and raw materials used	105 665
Payroll and payroll related costs	6 932
Depreciation	3 933
Rent	795
Other operating costs	3 257
Total	120 582

24. DISTRIBUTION COSTS

The distribution costs for the year ended 30 June 2005 were as follows:

	30 June 2005
Carriage and freight	8 229
Payroll and payroll related costs	887
Marketing and advertising	700
Sanitation services	420
Certification	395
Depreciation	103
Other	707
Total	11 441

25. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the year ended 30 June 2005 were as follows:

	30 June 2005
Payroll and payroll related costs	2 602
Repairs and material costs	759
Audit, legal and other professional fees	736
Bad debt expense	569
Rent	476
Business trip expenses	343
Communication services	326
Taxes other than income tax	280
Bank services	180
Information services	164
Insurance	103
Depreciation and amortization	83
Other	466
Total	7 087

26. FINANCE COSTS

The finance costs for the year ended 30 June 2005 were as follows:

	30 June 2005
Interest expense on bank loans	5 398
Interest expense on borrowings from related parties	770
Other finance costs	472
Total	6 640

27. OTHER INCOME, NET

The other income for the year ended 30 June 2005 were as follows:

	30 June 2005
Income from "DAK Asset"	863
Gain on sale of equity investments	305
Loss on disposal of property, plant and equipm	(483)
Other income, net	198
Total	883

"Income from "DAK Asset" for the year ended 30 June 2005 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt", which was not recognized as asset at 30 June 2004, by additional set-offs with "DAK" (Note 14).

28. ACQUISITION OF SUBSIDIARIES

On 30 September 2004 the Group Acquired 100% interest in CJSC "MZRM - Striletskaya Step" and LLC "Zhytnitsa", which together form the "DAR Group", for the consideration of USD 13,962 thousand.

This transaction was accounted for using the purchase method of accounting. The fair value of each class of the DAR Group's assets, liabilities and contingent liabilities acquired were as follows:

Net assets acquired	
Cash	13
Trade and other accounts receivable	150
Taxes recoverable and prepaid	276
Inventory	115
Property, plant and equipment (Note 11)	6 868
Intangible assets (Note 12)	6 877
Trade and other accounts payable	(645)
Deffered tax liability (Note 19)	(2 456)
Fair value of net assets acquired	**11 198**
Goodwill (Note 13)	2764
Total consideration, satisfied by cash	13962
Less: Cash acquired	(13)
Less: Prepayment made at 30 June 2004 (Note 14)	(1 500)
Net cash outflow arising on acquisition	**12 449**

29. TRANSACTIONS WITH RELATED PARTIES

Related parties are the Beneficial Owner, companies under common control of the Beneficial Owner and the Group's key management personnel.

The Group had the following balances outstanding with related parties as of 30 June 2005 and 2004:

	Related party balances as of 30 June 2005	**Total category as per consolidated balance sheet as of 30 June 2005**	**Related party balances as of 30 June 2004**	**Total category as per consolidated balance sheet as of 30 June 2004**
Trade accounts receivable, net (Note 6)	-	6 801	296	1 890
Prepayments to suppliers and other current assets, net (Note 7)	820	3 108	1 659	2 320
Other non-current assets (Note 14)	56	5 138	52	4 297
Trade accounts payable	-	2 451	665	1 420
Advances from customers and other current liabilities (Note 15)	-	4 759	2 408	3 605
Current portion of long-term debt (Note 17)	347	18 409	1 364	3 150
Long-term borrowings (Note 17)	3 742	35 428	5 281	9 885

Transactions with related parties for the year that ended 30 June 2005 were as follows:

	Amount of transactions with related parties	**Total category as per consolidated income statement**
Sales (Note 22)	625	143 763
General and administrative expenses (Note 25)	376	7 087
Finance costs (Note 26)	770	6 640

a) During the year ended 30 June 2005 the Group purchased raw materials and goods for resale from related parties for the amount of USD 624 thousand

b) During the year ended 30 June 2005 the Beneficial Owner arranged to release the Group's trade and other accounts payable to related companies under common control by the Beneficial Owner in the amount of USD 1,312 thousand (Note 21). Along with that, the Beneficial Owner also arranged to release other related companies under his control from their liabilities to the Group for loans issued to them by the Group before 30 June 2004 in the amount of USD 1,005 thousand. (Note 21). The related effect on provision for income tax liability amounted to USD 336 thousand (Note 15) and the related effect on minority interest amounted to USD 241 thousand (increase in minority interest). Both of these releases as well as the related effects on provision for income tax liability and minority interest were reflected in movement of additional paid-in capital in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005.

c) During the year ended 30 June 2005 the Beneficial Owner increased the Group's ownership interest in a number of Subsidiaries as shown in Note 1 by effectively free-of-charge withdrawal of shares in these Subsidiaries from the nominal shareholders, which resulted in decrease of the balance of minority interest for USD 637 thousand. This decrease was reflected as a contribution of additional paid-in capital in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005. Taking into account effect on minority interest rising on release of trade and other accounts payable and release of loans issued by the Group as discussed above in this note, total decrease in minority interest as a result of
contributions of additional paid-in capital during the year ended 30 June 2005 amounted to USD 396 thousand (Note 21).
d) As discussed in Note 17, during the year ended 30 June 2005 the Beneficial Owner arranged to replace the Group liability under the interest-bearing loan payable to a company located in a Baltic country with the interest free loan payable to the Beneficial Owner for the same nominal amount of USD 6,118 thousand. As a result of this transaction the Group recognized USD 2,029 thousand in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 21).

e) During the year ended 30 June 2005 the Beneficial Owner made a withdrawal amounting to USD 904 thousand which was reflected in movement of retained earnings in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005.

As of 30 June 2005 minority interest in the amount of USD 15,729 thousand (as of 30 June 2004: USD 15,380 thousand) (Note 20) includes USD 8,562 thousand (as of 30 June 2004: USD 8,518 thousand) attributable to one related party - nominal holder of the shares in Subsidiaries on behalf of the Beneficial Owner.

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

30. COMMITMENTS AND CONTINGENCIES

Operating Environment - The principal business activities of the Group's are within Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes. As a result, the Group's assets and operations could be at risk if there are any adverse changes in the political and business environment.

Taxation - Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the Ukrainian tax environment is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest.

In should be noted that the Group was involved in transactions that may be interpreted by the tax authorities in a way different from that of the Group and additional tax charges and penalties may be imposed. Despite the fact that the most significant tax returns of the Group companies for the said periods were reviewed by the tax authorities without any significant disputes or additional tax charges, they are still open for further review. In accordance with the current legislation, tax returns remain open and subject to examination for the three-year period after their submission, however, in certain cases this limitation does not apply.

Future tax examinations could raise issues or assessments which are contrary to the Group tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with Ukrainian tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

Retirement and Other Benefit Obligations - The major part of the Group's employees receive pension benefits from the Pension Fund, an Ukrainian Government organisation in accordance with the applicable laws and regulations. The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance the benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions.

As of 30 June 2005 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Legal Issues - The Group is involved in litigation and other claims that are in the ordinary course of its business activities.

Management of the Group believes that the resolution of such matters will not have a material impact on its financial position.

"DAK Asset" - As discussed in Note 14 the "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period and amounts to USD 2,591 thousand as of 30 June 2005 (as of 30 June 2004: USD 1,895 thousand).

"DAK" is a State company, which has been loss-making for a number of recent years. In October 2005 the Chief Executive Officer of "DAK" announced "DAK" insolvency and as a result the State authorities are currently considering reorganization or privatization of "DAK". One of the suggested actions within the reorganization procedures under consideration include initiation of court proceedings aimed at termination of "DAK" agreements on lease of its grain elevators.

In addition, the Law "On restoring solvency of a debtor or declaring it a bankrupt" ("the Law on Bankruptcy") stipulates a process of sanation within bankruptcy procedures as one of the procedures aimed at restoring solvency of a debtor. The Law on Bankruptcy also stipulates under certain conditions the right of the appointed sanation manager to initiate court proceedings aimed at termination of agreements of a debtor under sanation concluded with its counterparties.

Accordingly, should the State authorities finally opt to reorganize "DAK" or should the bankruptcy procedures and subsequently sanation of "DAK" be initiated there is a risk that the lease agreements between "DAK" and the Group will be terminated which will result in provision for impairment for the "DAK Asset" and this provision could be material.

Loan from the Beneficial Owner - As mentioned in Note 17, there is a disagreement between the Beneficial Owner and its related party located in a Baltic country in relation to the loan and the related interest payable by the Beneficial Owner to this party. The arrangement between the Beneficial Owner and the Group stipulates the Group's liability for repayment of additional amounts of loan and the related interest, if any, accrued to the Beneficial Owner under this loan facility. As of 30 December 2005 the arguable balance of the loan and the related interest amounts to approximately USD 430 thousand.

Contingent Liability Related to Government Assistance Programs - During 1995-1999 the State Treasury of Ukraine through the State Reserve of Ukraine, local state administrations and "DAK" (collectively "State representative bodies") implemented government assistance/loan programs ("Government assistance programs") to support collective agricultural farms ("Agricultural farms"). According to these programs, the grain elevators acted as state agents responsible for delivery of goods (fuel, fertilizers, grain seeds, etc.) from the State representative bodies to Agricultural farms and subsequent receipt of grain products from Agricultural farms as a settlement of their liabilities to the State representative bodies. Under a number of Government assistance programs some grain elevators were also obliged to sign direct purchase agreements with the State representative bodies and the corresponding direct sale agreements with Agricultural farms and, accordingly, were obliged to account at their balance sheets for these transactions.

As a result of such Government assistance programs, total liabilities to State representative bodies, recorded in the statutory accounting registers and off-balance sheet records of grain elevators of the Group amounted to USD 1,133 thousand as of 30 June 2005. The current Ukrainian legislation is uncertain in determining whether the liabilities under such Government assistance programs are to be repaid by the grain elevators involved or not and, therefore, there is a possibility that the State representative bodies may claim the repayment of the total amount of these liabilities in the amount of USD 1,133 thousand from the Group's grain elevators.

The Group management assesses the probability of such outcome as less than probable and believes that the provision for contingent liability to the State representative bodies in the amount of USD 178 thousand recognized as of 30 June 2005 is adequate (Note 15).

Capital Commitments - As of 30 June 2005 the Group had capital commitments on acquisition of production equipment in the amount of approximately USD 4,236 thousand under three finance lease agreements (Note 18) subject to future finance charges of USD 1,029 thousand and additional capital commitments of USD 596 thousand (as of 30 June 2004: USD 527 thousand).

Contractual Commitments on Sales - As of 30 June 2005 the Group was committed to sales of finished goods (sunflower oil) to one European customer in quantity within the range from 8,550 tons to 9,450 tons which corresponded to the amount of USD 5,318 thousand to USD 5,878 thousand (Note 17) in prices as of 30 June 2005.

Operating Leases - As of 30 June 2005 and 2004 the Group had outstanding commitments under non-cancellable operating leases agreements which all fall due as follows:

Lease term	**Future minimum lease payments as of 30 June 2005**	**Future minimum lease payments as of 30 June 2004**
Within 1 year	1 564	281
From 1 to 5 years	4 328	704
More than 5 years	1 476	163
Total	**7 368**	**1 148**

Operating lease payments mainly represent rentals payable by the Group for "DAK" grain elevators and equipment (Note 14), office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation

31. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit Risk - The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. Limits on the level of credit risk by customer are approved on a regular basis by the management of the Group.

Currency Risk - Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The management of the Group sets limits on the level of exposure by currencies.

Interest Rate Risk - Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

Currently, the Group's approach to the interest risk limitation is borrowing at fixed rates.

Liquidity Risk - The Group's objective is to maintain the balance between continuous funding and flexibility in the use of bank loan funds and settlements with suppliers. In accordance with the Group's plans its demand in the working capital will be satisfied mainly by cash inflows generated by operating activities. The Group may also use loan funds unless proceeds from operating activities are insufficient for appropriate settlement of liabilities.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: Disclosure and Presentation" and IAS No. 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 June 2005 and 2004 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Trade and Other Accounts Receivable - The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trade and Other Accounts Payable - The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

Short-term Borrowings - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Long-term Bank Borrowings - The carrying amount of long-term bank borrowings is considered a reasonable estimate of their fair value as the nominal interest rate on long-term bank borrowings is considered to be a reasonable approximation of the fair market rate with reference to loans with similar credit risk level and maturity period at the reporting date.

Long-term Loans from Related Parties - The carrying amount of long-term loans from related parties equals their fair value.

33. SUBSEQUENT EVENTS

a) Subsequent to 30 June 2005 the Group negotiated with Ukrainian and European commercial banks short-term and long-term credit facilities to finance its operating activities for the overall maximum credit limit of USD 59,745 thousand and pledged its inventory, property, plant and equipment, and property rights for sales agreements to secure these loan facilities. In addition, the Group refinanced on a long-term basis its obligations under current portion of loans payable to Ukrainian banks for the total carrying amount of USD 7,565 thousand (Note 17).

б) b) Subsequent to 30 June 2005 the Group has attracted most of employees of the regional offices from a subsidiary of another grain trader operating in Ukraine. These regional offices were engaged in purchasing grain and other agricultural products from farmers and also engaged in support of export sales of that grain trader. The Group incurred no costs associated with this transaction except for payroll costs paid to attracted employees in the normal course of business.

c) In July-August 2005 the Group acquired production equipment under three finance lease agreements for the total amount of USD 4,236 thousand subject to future finance charges of USD 1,029 thousand (Note 18).

d) Subsequent to 30 June 2005, "Kernel-Trade" LLC, a Subsidiary, performed two issues of domestic corporate bonds denominated in UAH for the total amount of USD 9,892 thousand repayable in September-October 2008. The bonds bear coupon interest of 14% per annum, interest is payable on a quarterly basis.