

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or the action that you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 ("FSMA") who specialises in advising on the acquisition of shares and other securities. An investment in the Company involves a significant degree of risk and may not be suitable for all recipients of this document. Investors should consider carefully the risk factors which are set out in Part 5 of this document.

This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed admission of the enlarged capital issued and outstanding Ordinary Shares of the Company to trading on AIM. This document does not contain an offer or constitute any part of an offer to the public within the meaning of section 85 of the FSMA or otherwise. This document is not an approved prospectus for the purposes of the said section 85 of FSMA and a copy of it has not been, and will not be, delivered to the UK Listing Authority in accordance with the Prospectus Rules or delivered to or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

This document is intended to be exempt from the provisions of the Isle of Man Companies Acts relating to the content of prospectuses and other technical rules relating to prospectuses and accordingly may be issued only to such persons as will bring the issue within the definition of "private placement" contained in the Isle of Man Companies (Private Placements) (Prospectus Exemptions) Regulations 2000. This document and the Placing have not been approved by the Isle of Man Financial Supervision Commission or any other governmental or regulatory authority in or of the Isle of Man.

Application has been made to the London Stock Exchange for the whole of the ordinary share capital of the Company (issued and to be issued) to be admitted to trading on AIM. The Ordinary Shares are not dealt in on any other recognised investment exchange and no application has been, or is being, made for the Ordinary Shares to be admitted to any such exchange. It is expected that Admission will become effective and that unconditional dealings in Ordinary Shares will commence on AIM on 1 June 2007.

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 of the UK Listing Authority. 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.

Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

The London Stock Exchange has not itself examined or approved the contents of this document.



# **Dragon - Ukrainian Properties & Development plc**

*(Incorporated and registered in the Isle of Man, registered number 119018C)*

**Placing of up to 104,000,000 new Ordinary Shares at \$2.00 per share**

**Admission to trading on AIM**

*Nominated Adviser and Broker*

**Zimmerman Adams International Limited**

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All of the Ordinary Shares will, upon Admission, rank equally in all respects, including the right to receive all dividends or other distributions thereafter declared, made or paid.

Zimmerman Adams International Limited ("ZAI"), which is authorised and regulated in the United Kingdom by the FSA, is acting as nominated adviser and broker to the Company and is not acting for any other person in connection with the Placing and Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of ZAI or for providing advice in relation to the Placing. ZAI's responsibilities as the Company's nominated adviser and broker under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person. ZAI has not authorised the contents of, or any part of, this document and without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by ZAI in respect of and no liability whatsoever is accepted by ZAI for the accuracy of any information or opinions contained in this document or for the omission of any information from this document, for which the Company and the Directors are solely responsible.

The distribution of this document outside the UK may be restricted by law and therefore any persons outside the UK into whose possession this document comes should inform themselves about and observe any such restrictions as to the Placing, the Placing Shares, the Ordinary Shares or the distribution of this document. Any failure to comply with such restrictions may constitute a violation of the securities laws of any jurisdiction outside of the UK. Neither the Placing Shares nor the existing Ordinary Shares have been or will be registered under the U.S. Securities Act or under the securities legislation of any state of the United States. Accordingly, the Placing Shares may not be offered, sold or delivered directly or indirectly into the United States of America or to or for the account or benefit of any US Person (as that term is defined in Regulation S promulgated under the U.S. Securities Act) unless the Placing Shares are registered under the U.S. Securities Act or an exemption from the registration requirements of the Securities Act is available. Hedging transactions involving the Placing Shares may not be conducted unless in compliance with the U.S. Securities Act.

This document has not been and will not be registered as a prospectus with the Russian Federal Service for the Financial Market or any other state bodies that may from time to time be in charge of such registration. This document does not constitute or contain a public offer or advertisement for the Ordinary Shares in Russia, and is not an offer to sell to an unlimited group of persons, or a public invitation to make offers to purchase, the Ordinary Shares in Russia. Accordingly, each of ZAI and the Company has agreed that they will not place, place, offer, sell or otherwise transfer Ordinary Shares as part of their initial distribution or at any time thereafter to any persons (including legal entities) resident, incorporated, established or located in Russia unless to the extent otherwise permitted by Russian law. The Ordinary Share may not be placed, traded, offered, sold or otherwise transferred as part of their initial distribution or at any time thereafter to any person (including legal entities) that are resident, incorporated, established or located in Russia except in compliance with Russian law.

Neither the Placing Shares nor the existing Ordinary Shares have been or will be registered under the securities legislation of any province or territory of Canada, Russia, Australia, Japan or the Republic of South Africa or any other jurisdiction. Accordingly, neither the existing Ordinary Shares nor the Placing Shares (subject to certain exceptions) may be offered, sold or subscribed directly or Russia indirectly in or into Australia, Canada, Russia, Japan, the Republic of South Africa, or to any national, citizen or resident of Australia, Canada, Japan, the Republic of South Africa or in any country, territory or possession where to do so may contravene local securities laws or regulations.

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## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Aloysius Wilhelmus Johannes van der Heijden (*Non-Executive Chairman*)

Tomas Fiala (*Non-Executive Director*)

Fredrik Svinhufvud (*Non-Executive Director*)

### Company Secretary

Anne Elizabeth Couper Woods

### Registered Office

Top Floor

14 Athol Street

Douglas

Isle of Man IM1 1JA

### Manager

Dragon Capital Partners Limited

P.O. Box 173

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Road Town, Tortola

British Virgin Islands

### Nominated Adviser and Broker

Zimmerman Adams International Limited

New Broad Street House

35 New Broad Street

London EC2M 1NH

United Kingdom

### Solicitors to the Company

*as to English law*

Faegre & Benson LLP

7 Pilgrim Street

London EC4V 6LB

United Kingdom

### Advocates to the Company

*as to Isle of Man law*

Simcocks Advocates Limited

Ridgeway House

Ridgeway Street

Douglas

Isle of Man IM99 1PY

### Tax Consultants

*as to Cyprus taxation and Isle of Man taxation*

PricewaterhouseCoopers Limited

Julia House

3 Themistocles Dervis Street

CY 1066 Nicosia

Cyprus

### Tax Consultants

*as to Ukrainian taxation*

PricewaterhouseCoopers

38 Turgenevska Street

Kyiv, 01054

Ukraine

### Reporting Accountants

Baker Tilly Corporate Finance LLP

2 Bloomsbury Street

London WC1B 3ST

United Kingdom

### Solicitors to the Company

*as to Ukrainian law*

Baker & McKenzie - CIS, Limited

Renaissance Business Center

24 Vorovskoho Street

Kyiv 01054

Ukraine

### Solicitors to the Nominated Adviser and Broker

Kirkpatrick & Lockhart Preston Gates Ellis LLP

110 Cannon Street

London EC4N 6AR

United Kingdom

### Administrator and Registrar

Simcocks Trust Limited

Top Floor

14 Athol Street

Douglas

Isle of Man IM1 1JA

### CREST Service Provider

Computershare Investor Services (Channel Islands) Ltd

PO Box 83

Ordnance House

31 Pier Road

St Helier

Jersey JE4 8PW

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

<b>“Administration Agreement”</b>	the agreement dated 23 February 2007 between the Company and Simcocks Trust Limited further details of which are set out in paragraph 9.5 of Part 8 of this document
<b>“Admission”</b>	the admission of the Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
<b>“AIM”</b>	the AIM market operated by London Stock Exchange
<b>“AIM Rules”</b>	the rules published by London Stock Exchange governing admission to and the operation of AIM, as amended from time to time
<b>“AIM Rules for Nominated Advisers”</b>	the rules published by London Stock Exchange governing the eligibility, ongoing obligations and certain disciplinary matters in relation to nominated advisers, as amended from time to time
<b>“Annual Performance Fee”</b>	the performance fee payable to the Manager pursuant to the terms of the Management Agreement
<b>“Certificate of Incorporation”</b>	the certificate of incorporation of the Company
<b>“certificated” or “in certificated form”</b>	an Ordinary Share that is in paper form, not in electronic form (that is, not in CREST)
<b>“CIS”</b>	Commonwealth of Independent States
<b>“City Code”</b>	the City Code on Takeovers and Mergers
<b>“Company” or “DUPD”</b>	Dragon-Ukrainian Properties & Development plc
<b>“Computershare”</b>	Computershare Investor Services (Channel Islands) Ltd
<b>“CREST”</b>	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations) used to facilitate the transfer of title to shares in uncertificated form, enabling title to securities to be evidenced and transferred without a written instrument
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 no. 3755), as amended
<b>“CREST Service Provider”</b>	Computershare acting in its capacity as depositary pursuant to the terms of the agreement for the provision of depositary services entered into between the Company, the Registrar and Computershare
<b>“Directors” or “Board”</b>	the Directors of the Company whose names are listed on page 3 of this document
<b>“Dragon Capital”</b>	Dragon Capital Ltd a company incorporated in Ukraine with registered number 30965875
<b>“Dragon Capital Group”</b>	Dragon Capital Holdings Limited (Cyprus), DRGN Limited (Cyprus), Dragon Capital Ltd (Ukraine), Dragon Capital Partners Limited (British Virgin Islands) and Dragon Development Ltd (Ukraine)
<b>“Dragon Warrant Instrument”</b>	the warrant instrument executed by the Company further details of which are summarised in paragraph 9 of Part 8 of this document
<b>“EU”</b>	European Union
<b>“FDI”</b>	Foreign Direct Investment
<b>“Financial Services Authority” or “FSA”</b>	the UK Financial Services Authority
<b>“FMCG”</b>	Fast Moving Consumer Goods
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 of the UK, as amended, including any regulations made pursuant thereto
<b>“GAV”</b>	Gross Asset Value as defined in paragraph 9.4 of Part 8 of this document
<b>“GDP”</b>	Gross Domestic Product
<b>“GLA”</b>	Gross Lettable Area

“IFRS”	International Financial Reporting Standards and related interpretations by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee in each case as issued by the International Accounting Standards Board.
“Lock-in Agreements”	the conditional agreements not to dispose of interests in Ordinary Shares save in certain circumstances, dated 16 May 2007
“London Stock Exchange”	London Stock Exchange plc
“Management Agreement”	the agreement pursuant to which the Manager has been appointed to provide advisory, investment management and monitoring services to the Company in respect of property development opportunities in the Ukraine further details of which are set out in paragraph 9 of Part 8
“Manager” or “DCP”	Dragon Capital Partners Limited
“Management Fee”	the management fee payable to the Manager pursuant to the terms of the Management Agreement
“NAV”	Net Asset Value as defined in paragraph 9.4 of Part 8 of this document
“NLA”	Net Lettable Area
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Panel”	the Panel on Takeovers and Mergers
“Placee”	a subscriber for Placing Shares procured pursuant to and on the terms of the Placing Agreement
“Placing”	the conditional placing of the Placing Shares with subscribers pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 16 May 2007 between the Company the Directors and ZAI, relating to the Placing, further details of which are set out in paragraph 9 of Part 8 of this document
“Placing Price”	\$2.00 per Placing Share
“Placing Shares”	104,000,000 new Ordinary Shares which are the subject of the Placing
“Prospectus Directive”	directive EC/809/2004 of the European Parliament and Council
“Prospectus Rules”	the rules published by FSA governing the publication of a prospectus, as derived from the Prospectus Directive
“QCA”	the Quoted Companies Alliance
“Rental Yield”	is the amount of money a landlord receives in rent over the course of one year, expressed as a percentage of the amount of money invested in the property
“Share Option”	the share option, further details of which are set out in paragraph 4 of Part 8
“Shareholder”	a registered holder of Ordinary Shares in the Company from time to time
“Simcocks”	Simcocks Advocates Limited
“SPV”	special purpose vehicle being a body corporate formed for a specific purpose
“UAH”	Ukrainian Hryvnia
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for purposes of Part VI of FSMA
“VAT”	Value Added Tax
“WTO”	World Trade Organisation
“ZAI”	Zimmerman Adams International Limited
“ZAI Warrant Instrument”	the warrant instrument executed by the Company further details of which are summarised in paragraph 9.7 of Part 8 of this document
“£” and “p”	United Kingdom pound sterling and “p” denotes pence
“\$”	US Dollar
“€”	Euro

## KEY INFORMATION

The following information must be read in conjunction with the full text of this document from which it is derived. Sole reliance should not be placed on the following information. In particular your attention is drawn to the section headed “Risk Factors” in Part 5 of this document.

### BACKGROUND

- Dragon-Ukrainian Properties & Development plc has been formed to invest in the development of new commercial properties and redevelopment of existing properties in Ukraine which offer the prospect of attractive returns to its Shareholders.
- The Company will utilise the property investment and development expertise of DCP and, where a joint venture agreement is appropriate, local Ukrainian partners.
- DCP has been appointed to provide advisory, investment management and monitoring services to the Company in respect of property development opportunities in Ukraine. DCP is an affiliate of Dragon Capital, a leading Ukrainian financial institution specialising in the provision of investment banking, securities trading, asset management and private equity services. Dragon Capital has received the “Best Equities House in Ukraine” award in 2002, 2004, 2005 and 2006 by “Euromoney”, a leading financial journal. The senior management of DCP possess expertise in the Ukrainian investment and real estate markets. In addition, DCP has access to the additional resources of Dragon Development Limited, a Ukrainian company specialising in the provision of real estate development services with particular expertise in the retail sector.
- The Company has entered into a Management Agreement with DCP for an initial five year term.
- Application has been made for the Company’s shares to be traded on AIM.
- Once the proceeds of the Placing have been fully invested, the Directors intend to work towards a target dividend yield of 7 to 10% per annum at the Placing Price. The Director’s current intention is that the dividend payout ratio will be not less than 85% of the distributable profits of the Company.

### THE OPPORTUNITY

- The Directors believe that the Ukrainian commercial property market and, in particular, the development of new and re-development of existing properties in the retail, office and warehousing sectors, presents a solid investment opportunity due to the following:
  - high rental yields are available in the Ukrainian property market relative to other European markets;
  - in the short and medium term, demand for high-quality retail, office and warehouse space should continue to exceed supply as the country’s economy develops, which, coupled with limited availability of high quality property stock, is expected to exert strong upward pressure on rent levels; and
  - over the foreseeable future, the Ukrainian real estate market is likely to experience further yield compression, mirroring the trend in other central and eastern European countries.
- Whilst the initial focus of the Company will be on the development of retail, office and warehouse space, the Directors will consider alternative types of investment in real estate, for example, land acquisitions that carry developmental potential for residential projects, where they believe such investments will generate appropriate returns for Shareholders.
- Whilst the Company’s primary focus will be on the development and re-development of commercial properties and, to a lesser extent, on secondary market acquisitions, the Company will actively seek opportunities to enter into sale-and-leaseback arrangements, mainly in the retail sector where the Directors believe such opportunities are likely to be present.
- The Company also intends to selectively assess opportunities to acquire existing real estate assets across various categories, where the Directors consider such investments will allow for adequate return for the Shareholders.

The Directors believe that, in addition to the typical development profit created upon completion of each project, Shareholders will benefit from further increases in the capital value of real estate properties as evidenced by the expectation of further yield compression, as the Ukrainian real estate market becomes more mature.

## PLACING STATISTICS

TIDM symbol	DUPD
ISIN number of the Placing Shares	IM00B1XH2B90
Number of Ordinary Shares in issue following the Placing and Admission	104,000,200

	\$	Indicative £
Placing Price per Placing Share <sup>(1)</sup>	\$2.00	101p
Market capitalisation of the Company at admission <sup>(1)</sup>	\$208.0 million	£104.8 million
Estimated net proceeds of the Placing <sup>(1)</sup>	\$205.1 million	£103.3 million

### (1) SHARE PRICE DENOMINATION

The Placing Price of \$2.00 per Placing Share, would equate to £1.01, based on the exchange rate published on Bloomberg on 25 May 2007, of \$1.9849 to £1.00 This exchange rate is expected to fluctuate, which may have an effect on the price at which the ordinary shares will commence trading on admission to AIM. The ordinary shares will be quoted and traded on AIM in sterling. The precise \$/£ exchange rate will be obtained from Royal Bank of Scotland on the day of Admission.

### EXCHANGE RATE

£1 : \$1.9849

£1 : €0.6767

The exchange rates noted above are taken from Bloomberg at 25 May 2007, being the last practicable date prior to the date of this publication. This exchange rate has been used throughout the document.

### EXPECTED TIMETABLE OF PRINCIPLE EVENTS

Publication of this document	<b>2007</b> 25 May
Admission and commencement of dealings on AIM	1 June
Despatch of definitive share certificates	by 8 June

## PART 1

### INFORMATION ON THE COMPANY

#### 1. INTRODUCTION

The Company has been formed to invest in the development of new commercial properties and re-development of existing properties in Ukraine which offer the prospect of attractive returns to its Shareholders.

#### 2. THE OPPORTUNITY

The Directors believe that the Ukrainian commercial property market, in particular, the development of new and re-development of existing properties in the retail, office and warehousing sectors, presents a solid investment opportunity mainly due to the following:

- high rental yields are available in the Ukrainian property market relative to other European markets;
- in the short and medium term, demand for high-quality retail, office and warehouse space should continue to exceed supply as the country's economy develops which, coupled with limited availability of high-quality property stock, is expected to exert strong upward pressure on rent levels;
- over the foreseeable future, the Ukrainian real estate market is expected to experience increases in capital values as confirmed by expectations of further yield compression, mirroring the trend in other central and eastern European countries; and
- the practice of rental payments being predominantly denominated in US dollars alleviates foreign currency risk.

#### 3. INVESTMENT STRATEGY

The Company's strategy is to invest in the development of new commercial properties as well as in the redevelopment of existing properties in Ukraine which offer the prospect of attractive returns to its Shareholders.

The initial focus will be on the development of new and re-development of existing commercial properties in the retail, office and warehousing sectors. However, the Directors will also consider alternative types of investment in real estate, including land acquisitions with development potential for residential projects, where they believe such investments will generate appropriate returns for Shareholders.

The Company's initial investment and development activities will focus on Kyiv and Kyiv oblast as well as other major regional centres of Ukraine where the population exceeds 700,000 people. The Directors believe that there are potential investment opportunities in smaller, yet important centres of Ukraine which should also be exploited by the Company on a selective basis.

Whilst the primary focus will be on the development and re-development of commercial properties and, to a lesser extent, on secondary market acquisitions, the Company will actively seek opportunities to enter into sale-and-leaseback arrangements, mainly in the retail sector where the Directors believe such opportunities are likely to be present, given the continued expansion of the retail sector in Ukraine. The Directors consider that opportunities to partner with multinational businesses in Ukraine may also become available in the near future, as a result of the continuing strength of FDI into the country.

The Company expects to implement its strategy in partnership with one or more local property development experts. It may acquire properties from such partners and may make investments in, or form joint ventures with them. It also intends to retain a team of in-house and external local professional advisers including property consultants, legal, accounting and tax experts. The Directors expect the Company to play an active role in selecting and supervising the projects in which the Company will become involved.

The Company expects to invest the net proceeds of the Placing within 24 to 30 months after Admission in accordance with the investment strategy stated herein. Funds not invested, will be held on deposit in cash or in near cash instruments.

As an investing company within the meaning of the AIM Rules, the Company will seek the consent of the Shareholders to its investment strategy annually.



#### **4. PROPOSED CORPORATE STRUCTURE**

In due course, the Company will adopt a group structure of a type typically employed by overseas owners of Ukrainian real estate assets. The properties are likely to be owned by Ukrainian SPVs whose shares will be wholly owned by Cypriot subsidiaries of the Company. The location of subsidiaries in Cyprus will allow the Company to take advantage of an existing double taxation treaty between Ukraine and Cyprus. Subject to the limitations contained in applicable taxation legislation and treaties, debt financing for the acquisition and development of properties may be provided wholly or partly by other SPVs resident in Cyprus or other favourable jurisdictions. The ultimate parent company, DUPD, will be the sole owner of all Cypriot and other subsidiaries. The Company retains the right to choose the most suitable structure appropriate for each transaction that is entered into by it and from time to time to consider the adoption of other corporate structures. DUPD is domiciled and registered in the Isle of Man.

#### **5. INVESTMENT PROCESS**

The Manager will be responsible for identifying new investment opportunities for the Company that fall within the investment strategy set out in this document. Once a potential opportunity has been identified, the Manager will carry out a due diligence exercise into the opportunity and, after concluding that the project is suitable, negotiate the purchase or investment or other terms with the relevant counter-party. Once this process is complete, the proposed opportunity will be presented to the Board. The Board will take the final decision on whether or not to pursue the proposal.

The key factors that are likely to influence the ultimate decision to proceed with a project are location, marketability, price, financing structure and legal and ownership status.

#### **6. INVESTMENT PIPELINE**

The Manager is aware of several investment opportunities which are in line with the Company's investment strategy, outlined below:

- development of two modern retail trade facilities in Kharkov and Dnepropetrovsk. The project is sponsored by "*Kray Property*", the development arm of a major Ukrainian retailer "*Magellan*" and entails the development of two shopping centres with a combined building area of 156,000 sq. m.;
- development of modern office space in Kyiv on a four-hectare land plot, in close proximity to the city centre. The project is called "*Venice Park*" and is sponsored by the existing lessee of the land plot. It entails the development of an 128,700 sq. m. office centre to be constructed in three separate phases;
- redevelopment of an office/retail facility in the center of Odessa. The project is sponsored by the current owners of an existing two-storied building present on this location, and entails construction of 3,287 sq. m. class A office and retail facilities;
- acquisition of approximately 800 hectares of agricultural land located within 5 km from Kyiv on the Borispol highway. The aim of the project will be to convert the status of the land, following acquisition, to "land for construction of residential properties" which will allow the sale of the land to third party developers or development to be commenced, in partnership with other developers, to build a substantial residential area and to capitalise on growing demand for suburban housing;
- development of a warehouse park facility in the Kharkiv region. The project, sponsored by a leading local development company which aims to obtain all necessary permits and approvals, entails the development of a large-scale warehouse park project. The development envisages construction of 300,000 sq. m. of Class A warehousing units and 15,000 sq. m. of office space over six phases;
- development of an upscale housing project comprising approximately 41 villas located on an 18.5 hectares land plot on the bank of a river. The location represents a unique natural landscape, being a combination of mixed forest with its own riverside within forty minute driving distance from the center of Kyiv;
- development of a trading center in the Ukrainian region of Lvov. The size of the land plot is 8.5 hectares and allows for the development of an 80,000 sq. m. trading center; and
- development of a trade & office center on a 0.82 hectares land plot in the central part of Kharkov.

The above opportunities have been presented to the Manager by Colliers International, a leading international real estate consultant, and local property developers. The details of these projects set out above are reproduced from information which has been received by the Manager from the above mentioned sources and none of this information has been independently verified by the Manager or the Company. Neither the Manager nor the Company has entered into any heads of agreement or legally binding obligations in respect of any of the above opportunities. However, based on the preliminary review and the opinion of the Manager, assuming all such information is true and accurate, the combined investment requirement of the above listed market opportunities may vary from \$550 million up to \$600 million (excluding the opportunity to acquire 800 hectares of agricultural land that carries a preliminary acquisition cost of approximately \$160 million and in respect of which the Manager requires further due diligence to ascertain the development costs) depending on the extent of the final development effort. No assurance is given that these opportunities will result in investments being made by the Company post Admission.

## **7. CURRENCY**

In the future it may be possible and desirable to denominate rents in currencies other than US dollars and this will be actively considered by the Board when appropriate.

As the Company's income is expected to be denominated in currencies other than Sterling, the Company is likely to be exposed to variations in currency exchange rates which might affect the Board's ability to achieve its target dividend yield. The Board will consider currency hedging measures as appropriate.

## **8. DIVIDEND POLICY**

The level of regular dividends will depend on the rental and other income (including realised capital gains) generated from the properties acquired, investments made or joint ventures entered into by the Company. Once the proceeds of the Placing have been fully invested, the Directors intend to work towards a target dividend yield of 7 to 10% per annum at the Placing Price and also currently intend that in due course dividends paid by the Company will represent not less than 85% of annual net profits.

The extent to which income generated on property assets can be distributed to Shareholders by way of dividend will depend on, among other things, the application of Ukrainian accounting principles and the nature and structure of the acquisitions made including, where relevant, the inherited accounting policies of any property-holding target company which may be purchased. As a result, it is possible that not all of the trading profits recorded in the Company's consolidated financial statements will be available to the Directors in the form of distributable profits from which to pay dividends. In that event, the Directors will consider alternative means of returning funds to Shareholders.

## **9. THE PLACING AND USE OF PROCEEDS**

The Placing comprises 104,000,200 new Ordinary Shares which are being issued by the Company to raise approximately £104.8 million (\$208.0 million) before expenses, which are expected to be approximately £1.46 million (\$2.9 million).

ZAI has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place the Placing Shares with institutional and other investors at \$2.00 per share. The new Ordinary Shares will represent approximately 100% of the enlarged issued ordinary share capital of the Company following the Placing. This does not include any Ordinary Shares reserved for the exercise of the Dragon Warrant, the ZAI Warrant and the Share Option. Following Admission, the Directors and their connected persons will be interested in 5,000,200 Ordinary Shares, representing approximately 4.81% of the enlarged issued ordinary share capital of the Company. Further details regarding the Directors' shareholdings are set out in paragraph 4 of Part 8 of this document.

The Placing is conditional, *inter alia*, upon:

1. the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
2. Admission becoming effective not later than 1 June 2007, or such later date as ZAI and the Company may agree, being not later than 1 July 2007.

Further details of the Placing Agreement are set out in paragraph 9 of Part 8 of this document.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. Admission is expected to become effective and dealings in the Ordinary Shares are expected to commence on 1 June 2007.

## **10. LOCK-INS AND ORDERLY MARKETING ARRANGEMENTS**

In accordance with Rule 7 of the AIM Rules for companies, each of the Directors and the Manager has undertaken, save in limited circumstances, not to dispose of any of his interests in such shares at any time prior to the first anniversary of Admission and thereafter for a further twelve months not to dispose of any such interests without consulting with ZAI in order to seek to maintain an orderly market in the Ordinary Shares. In addition the Manager has also undertaken, save in limited circumstances, not to dispose of any Ordinary Shares in which it is or may become interested whether pursuant to the Dragon Warrant Instrument, the Management Agreement or otherwise at any time prior to the first anniversary of the allotment of such shares. In aggregate, 5,000,200 Ordinary Shares, representing approximately 4.81% of the enlarged issued share capital of the Company as it is expected to be on Admission, are subject to the lock-in arrangements referred to above. Further details of the lock-in arrangements are set out in paragraph 9 of Part 8 of this document.

## **11. FINANCIAL INFORMATION**

The Company has only recently been incorporated and consequently it has not published any financial information. Financial information on the Company is set out in Part 6 of this document.

The Company's financial statements will be prepared annually in accordance with IFRS. The Company's annual report and consolidated accounts will be prepared up to 31 December in each year. The first such annual report covering the period from incorporation to 31 December 2007 is expected to be dispatched by the end of April 2008. Shareholders will also receive an unaudited interim report covering the six month period to the end of June in each year, although the first such report will cover the six month period from inception to 31 August 2007. Shareholders will be sent updates on the Company's activities as and when appropriate.

Under IFRS, the Company will prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital and also includes net realised and unrealized investment gains. The Company's management and administration fees, finance cost (including interest on any bank facility) and all other expenses will be charged through the income statement.

## **12. BORROWINGS**

The Company expects to borrow aggressively to optimise returns for Shareholders up to the maximum loan-to-asset value (for the portfolio or any property in the overall portfolio) available under market conditions at the relevant time. Borrowing on any individual property, however, will not, in any event, exceed 75% of the value of that property at the time of its acquisition. The borrowing policy will be adopted to suit the prevailing market conditions from time to time. The Company will consider raising debt financing by all means including, *inter alia*, bank borrowings, private debt placements or listed debt instruments.

Debt financing for real estate is not yet as sophisticated in Ukraine as it is in other European markets. However, the Directors expect this environment to change in the near future thus allowing the Company to enhance its equity returns by employing the more highly leveraged structures available in more developed markets.

## **13. PURCHASES OF SHARES BY THE COMPANY**

During the period from the date of Admission until the Company's first annual general meeting, the Company may purchase up to 7.5% of the Company's Ordinary Shares in the market in order to address any imbalance between the supply of and demand for Ordinary Shares and to increase the net asset value per outstanding Ordinary Share. Any repurchase of Ordinary Shares will be in accordance with the Companies Act 1992 (Isle of Man).

The Directors will consider repurchasing Ordinary Shares if they believe it to be in Shareholders' interests generally, but particularly in order to redress any imbalance between the supply of, and demand for, Ordinary Shares. Subject to Shareholders' approval, the Directors expect to invite Shareholders to renew the authority to repurchase Ordinary Shares at the annual general meeting in 2009, and annually thereafter.

It is intended that promptly after Admission, an application will be made to the Isle of Man Courts to cancel 10% of the share premium account arising on the issue of Ordinary Shares so as to create a distributable reserve. Subject to shareholder approval and Isle of Man Court confirmation, this reserve will be available for making purchases of Ordinary Shares or for distribution to Shareholders, should the Directors consider this to be appropriate.

In giving its sanction, the Court will be concerned to protect the interests of the Company's creditors. The precise form of creditor protection will be determined by the Court and the Company will take such steps as it thinks appropriate in order to satisfy the Court in that regard.

Implementation of the proposed cancellation of part of the Company's share premium account will require the passing by Shareholders of a special resolution (requiring a 75% majority of those Ordinary Shares that are eligible to vote in favour of the resolution) to be proposed at an extraordinary general meeting duly called and held.

#### **14. LIFE OF THE COMPANY**

The Company is incorporated for an indefinite period.

#### **15. CONFLICTS OF INTEREST**

The Dragon Capital Group pursues a number of real estate development projects in Ukraine. Under the terms of the Management Agreement the Manager has no ability to commit the Company or any of its subsidiaries to make any acquisition or disposal. In the event that any affiliate of the Manager (a "Relevant Party") has the opportunity to acquire any property in Ukraine which is compliant with the Company's investment strategy as outlined in paragraph 3 of Part 1 of this document (a "Conflict Property") then the Manager shall cause the Relevant Party to provide, *inter alia*, all material details of the Conflict Property to the Company, in order for the Company to decide whether or not to notify the Manager that it should pursue the opportunity to acquire the Conflict Property. If the Company so notifies the Manager of its intention to pursue the opportunity to acquire a Conflict Property, the Manager shall procure that no affiliate of the Manager shall acquire any interest in the Conflict Property in question without the prior consent of the Company.

#### **16. PROPERTY VALUATION POLICY**

The Board intends to appoint a leading internationally recognised independent property valuer following the investment in the first property project by DUPD. It is the Board's intention that the Company's portfolio will be valued on a semi-annual basis. Such valuations will be undertaken in accordance with either the European Valuation Standards as published by the European Group of Valuers Associations or the International Valuations Standards as by the International Valuation Standards Committee. A summary of such valuations and respective net asset value arising from such valuations will be disclosed to Shareholders with the announcement of the Company's interim and annual results.

#### **17. INSURANCE**

The insurance industry in Ukraine is at an early stage of development and, accordingly, the insurance cover available is relatively limited. Where possible, the Company will put in place similar insurance to that available in the UK. However, it is unlikely that the Company will be able to obtain title insurance due to the limited types of insurance products available.

#### **18. ACCOUNTING POLICY**

The audited consolidated accounts of the Company will be prepared under IFRS. Under IFRS, the Company will prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital and also includes net realised and unrealised investment gains. The Company's management and administration fees, finance costs (including interest on any bank facility) and all other expenses will be charged through the income statement.

#### **19. TAXATION**

Information regarding Isle of Man, Cyprus and Ukraine taxation for potential Shareholders is set out in Part 7 of this document.

## **20. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Ordinary Shares under the CREST system. The Company will apply for the Ordinary Shares to be admitted to CREST on the date of Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **21. ADMISSION, SETTLEMENT AND DEALINGS**

Application will be made for the Ordinary Shares to be admitted to trading on AIM and it is expected that Admission will become effective and dealings in the Ordinary Shares will commence at 8.00 a.m. on 1 June 2007 or shortly thereafter.

It is expected that the relevant Ordinary Shares will be delivered to the relevant CREST accounts on the day of Admission and that share certificates for the Ordinary Shares to be held in certificated form will be dispatched within 10 business days of Admission. No temporary documents of title will be issued.

## **22. RISK FACTORS**

The attention of potential investors is drawn to the “Risk Factors” set out in Part 5 of this document.

## **23. FURTHER INFORMATION**

Your attention is drawn to the additional information set out in Part 8 of this document.

## PART 2

### THE BOARD, MANAGER AND ADMINISTRATION

#### 1. THE BOARD

The Board comprises directors with extensive experience in property investment, development and management, as well as investment, company law and administration.

Brief biographies of the Directors are set out below:

**Aloysius Wilhelmus Johannes van der Heijden** – *aged 58, Non Executive Chairman*

Mr. van der Heijden has worked in the real estate industry for 29 years, a large part of which he spent as a General Director of Beheer Brouwershoff Amsterdam B.V., a private investment company of Drs. C. van Zadelhoff with a core business in capital investment, predominantly in real estate and also commercial real estate brokerage and advisory services. Currently, he is a director of Corvan Properties Limited, a non-executive partner of DTZ Zadelhoff (The Netherlands) and a Supervisory Board member of DTZ Zadelhoff Tie Leung Central & Eastern Europe and N.V. “Het Havengebouw”.

**Fredrik Svinhufvud** – *aged 52, Non Executive Director*

Fredrik Svinhufvud is currently managing director of Malka Oil AB, a Swedish oil company concentrating on oil and gas production in western Siberia in Russia. Previously he was managing director of Tetra Pak Ukraine for six years until February 2007. Fredrik started in Ukraine as Tetra Pak factory manager in 1995 and was then appointed managing director in 2001. Additionally, he has held several international positions within the oil field services industry, initially with Schlumberger Ltd in South America, Atlas Copco in North America and the Geco Well Services in the North Sea. Later he held positions within sales and marketing in the agriculture supply industry (Trelleborg AB). In March 2006 Fredrik was elected President of the European Business Association in Ukraine.

**Tomas Fiala** – *aged 33, Non Executive Director*

Mr. Fiala has been the principal shareholder and managing director of Dragon Capital Group, a Kyiv-based investment bank, since April 2000. Mr. Fiala established Dragon Capital as a brokerage and has since grown it into a leading Ukrainian investment house specialising in brokerage, investment banking, securities trading, asset management and private equity investments. Prior to establishing Dragon Capital, Mr. Fiala served as senior executive for five years at Wood & Company, a leading investment bank in the Central Eastern Europe region. Mr. Fiala is currently serving as chairman of the supervisory board of Karlivka Machine-building Plant, Ukraine’s leading agricultural equipment producer. He is also a member of the Supervisory Board of Nova Liniya, the largest DIY supermarket chain in Ukraine, Cantik Enterprises Limited, a Ukrainian retail real estate development company, Retail Group, one of the largest food retailers in Ukraine, Ukribank as well as KP Media, a leading Ukrainian media holding.

#### 2. THE MANAGER

The Manager is an affiliate of Dragon Capital, a leading Ukrainian financial institution specialising in the provision of investment banking, securities trading, asset management and private equity services.

Dragon Capital, through its private equity investment activities, either as a sole investor or through joint ventures with leading institutional investors and Ukrainian entrepreneurs:

- currently manages several real estate development projects aiming to construct over 150,000 sq. m. of retail trading centres in key regional centres of Ukraine;
- is a specialised advisor on the development of 65,000 sq. m. Class A warehouse park, located in Kyiv on behalf of a leading real estate investment fund;
- is a co-founder and shareholder of Forum Business City – one of the largest office centres in Kyiv with over 28,000 sq. m. of NLA;
- has completed the development of six DIY retail outlets with a total area of 60,000 sq. m.;

- has consolidated and obtained appropriate land zoning permits for over 600 hectares of land in the Kyiv region;
- has completed the development of 3,000 sq. m. of a Class B office building in central Kyiv; and
- has exited from two investments in the warehousing sector and two investments in office buildings during the early phase of development, realising solid returns on its investment.

The senior management of DCP possess expertise in the Ukrainian investment market across a wide spectrum of industry sectors, including the local real estate market. DCP also has access to the additional human resources and expertise of another subsidiary within the Dragon Capital Group, Dragon Development Limited, a Ukrainian company specialising in the provision of real estate development services with particular expertise in the retail sector.

The senior management team of DCP, who will be responsible for investment management, are Tomáš Fiala, Chris Kamtsios, Volodymyr Tymochko, Eugene Baranov, Oleg Kurinnoy, Yulia Klimenko and Denis Vaschenko. Brief biographies for those individuals are provided below except Tomas Fiala. A brief biography of Tomas Fiala is provided above.

**Chris Kamtsios** – *Senior Partner & Managing Director*

Mr. Kamtsios leads the private equity division of Dragon Capital. The portfolio of Dragon Capital currently includes a retail real estate development project, one of the largest machine building industrial complexes in the CIS and a leading Ukrainian DIY chain. Prior to joining Dragon Capital, Mr. Kamtsios was a Senior Partner at Ineko Capital Partners LLP, a Ukrainian private equity group. He has also previously spent four years at Commercial Capital Group, the private equity arm of Commercial Bank of Greece, as director of investments responsible for Russia and Ukraine, as well as for several investments of the bank in Western Europe and the USA. Mr. Kamtsios has accumulated extensive investment expertise in a breadth of industry sectors and has successfully sourced, executed and managed several investments for Commercial Capital in Eastern Europe. He has served on the board of directors of six Eastern European companies active in real estate, food processing, restaurant chains, distribution of FMCG, construction materials, and transportation industries. Prior to Commercial Capital, Mr. Kamtsios worked for five years in the leveraged buyout division of JPMorgan Chase in New York as Senior Associate. Chris received his BBA in Finance & Investments from Bernard Baruch College in New York in 1991 and has graduated with honors from a Management Training Program in 1993 sponsored by JPMorganChase.

**Volodymyr Tymochko** – *Junior Partner, Director of Investments*

Prior to joining DCP, Mr. Tymochko worked at Colliers International, Kyiv for over three years. Having started as a real estate analyst, Volodymyr became an associate director for consulting. While at Colliers, Mr. Tymochko specialised in the following services: concept development for retail, office and mixed-use projects, highest and best use analysis, market research, as well as business planning for commercial real estate. During his tenure at Colliers, he was principally involved in several high-profile projects including “Petrivka Mall” (Kyiv, 60,000 sq. m. of GLA), “Kvadrat on Troyeschyna” (Kyiv, 35,000 sq. m. of GLA), “Leopolis”, (Lviv, 45,000 sq. m. of GLA), “Sinnyy Rynok” (Kyiv, 45,000 sq. m. of GLA), “On Heroiv Dnipra”, (Kyiv, 35,000 sq. m. of GLA). Mr. Tymochko’s main focus has been the retail sector, however, he has experience in all sectors of commercial real estate. Volodymyr graduated from Kyiv-Mohyla Academy with an MA degree in economic theory.

**Eugene Baranov** – *Junior Partner, Director of Investments*

Mr. Baranov is a junior partner responsible for private equity investments of Dragon Capital. Mr. Baranov has successfully executed and managed several investments for Dragon Capital including several projects in real estate, FMCG, machine building and DIY retail industry sectors. Prior to joining Dragon Capital, Mr. Baranov worked for Ineko Investment Company for more than four years, initially as Senior Manager and subsequently as Director of Investments responsible for strategic development of all portfolio companies. While at Ineko, Mr. Baranov developed substantial operating expertise in land and real estate construction projects and has successfully structured several spin-off and further divestment of the real estate assets of various industrial enterprises. He has served on the Board of Directors of five Eastern European companies active in the real estate, construction materials, FMCG and oil & gas. Mr. Baranov holds an MS degree in Economics from Kyiv National University of Economics.

**Oleg Kurinnoy** – *Partner, Director of Development*

Mr. Kurinnoy has been with Dragon Capital since its establishment, as a Partner, responsible for a wide range of legal and corporate matters, both on the private equity and corporate finance divisions. Among other transactions, Mr. Kurinnoy has participated in the structuring and acquisition of several industrial properties, which were subsequently converted into commercial office space facilities, together with a partner of Dragon Capital. These projects include some of the best known properties in Kyiv such as Forum Business City (28,000 sq. m. of B+ office space) and Forum Park Plaza (32,000 sq. m. of B+ office space). Mr. Kurinnoy's knowledge and proprietary network of contacts has been pivotal for identifying and securing key assets as well as for monitoring the development of nine trading centres with total area of over 120,000 sq. m. Oleg holds a MS degree in economics from Kyiv National University of Economics and an MS degree in radio-engineering electronics from High Military School in Zytomir.

**Yulia Klimenko** – *Director, Property Management*

Ms. Klimenko has over five years of property management experience with two of the largest office parks in Kyiv, "Forum Business City" and "Forum Park Plaza". She was involved in the concept development for both projects and at completion assumed the position of chairman for both companies. She is also responsible for property management of two office parks with a total area of 60,000 sq. m. Ms. Klimenko has received an MBA degree from International Institute of Management of Kyiv and a CPM (Certified Property Manager) degree from the Institute of Real Estate Management of Moscow.

**Denis Vaschenko** – *Director, Construction*

Mr. Vaschenko's entire professional career has been within the construction sector. As a manager of a construction team of "Kyivbudinvest", he was involved in projects including the construction of Central railway station in Kyiv and International Trade University. In 2002, Mr. Vaschenko joined the "Black Sea Investment Group", one of the leading real estate developers in Kyiv, as project manager. During his tenure at Black Sea Investment Group, he was directly involved in all stages of project preparation and implementation for over ten projects involving the construction/reconstruction of residential and commercial property. This included several designer-label boutiques as well as various trading centres in Kyiv. Since 2005, Mr. Vaschenko has joined "Finprofil" Ltd., a subsidiary of Dragon Capital, and the general contractor on the construction of DIY trading centres in Kyiv oblast and Dnipropetrovsk, where he was appointed a director. Following Admission, Mr. Vaschenko will spend all of his time at DCP, responsible for project management on future development projects. Mr. Vaschenko graduated from Kyiv State University of Construction and Architecture as a specialist in construction works and later received his MS on construction project management from the same University.

**Management Agreement**

The Company has entered into the Management Agreement with DCP pursuant to which the Manager will provide advisory, management and monitoring services to the Company.

In consideration for these services the Manager will receive an annual Management Fee of 1.5% of the GAV of the Company at the end of the relevant accounting period or part thereof plus VAT or similar taxes which may be applicable.

GAV will be calculated on a semi-annual basis from the consolidated balance sheet of the Company after adding back any dividends declared or paid in relation to such accounting period. For these purposes GAV is the aggregate of the consolidated non-current and current assets of the Company adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the Company's Property Valuation Policy outlined in Paragraph 16 of Part 1 of this document and, where forward funding commitments granted by the Company exist, the aggregate amount of sums committed to the relevant developments less its consolidated liabilities (excluding bank or third party indebtedness).

The Management Fee will be paid semi-annually to the Manager in cash.

The Manager will also receive an annual Performance Fee calculated by reference to the increase in net asset value ("NAV") over the relevant accounting period. NAV is defined in the same way as GAV save that the consolidated liabilities of the Company will include any bank or third party indebtedness and that, for the Company's first accounting reference period, the opening NAV is equal to the net proceeds of the Placing.



Where the NAV at the end of the relevant accounting period exceeds the highest NAV at the end of any previous accounting period by 10% or more but not more than 35% the Manager is entitled to a Performance Fee of 20% of the amount by which such excess exceeds 10%.

Where such excess is 35% or more the Manager is entitled to an additional Performance Fee of 25% of the amount by which such excess exceeds 35%.

30% of the Performance Fee will be paid in cash. The balance will be satisfied by the issue of Ordinary Shares credited as fully paid at a price equal to the average middle market closing price of Ordinary Shares over the last 20 business days in the accounting period in relation to which the Performance Fee is being paid. Further details of the Management Agreement are set out in paragraph 9.4 of Part 8 of this document.

#### **Dragon Warrant Instrument**

DCP has been issued with warrants to subscribe for up to 5% of the Ordinary Shares in issue on Admission at any time during the sixty months following Admission at the Placing Price. Should the Company complete additional capital raising through further subscriptions for Ordinary Shares the Company shall issue further warrants to ensure that DCP shall have the rights to subscribe for 5% of the Company's issued share capital. In the case of such further subscriptions, the exercise price for the respective warrants will equate to the subscription price paid by such subscribers.

A summary of the terms of the Dragon Warrant Instrument is set out in paragraph 9.6 of Part 8 of this document.

#### **ZAI Warrant Instrument**

ZAI has been issued with warrants to subscribe for up to 1% of the Ordinary Shares in issue on Admission at any time during sixty months following Admission at the Placing Price.

A summary of the terms of the ZAI Warrant Instrument is set out in paragraph 9.7 of Part 8 of this document.

#### **Share Options**

The Company has granted options to Mr. van der Heijden to subscribe for up to 100,000 Ordinary Shares at the Placing Price. The options will vest, as to 10,000 options on the first anniversary of Admission, as to a further 15,000 options on the second anniversary of Admission, as to a further 20,000 options on the third anniversary of Admission, as to a further 25,000 options on the fourth anniversary of Admission and, as to the remaining 30,000 options, on the fifth anniversary of Admission.

Further details of the Share Options are set out in paragraph 4.4 of Part 8 of this document.

### **3. THE ADMINISTRATOR**

Pursuant to an Administration Agreement dated 23 February 2007 between the Company and the Administrator, the Administrator has agreed to provide the Company with administrative, registrar and company secretarial services on the terms therein provided, for an annual retainer fee of £3,000 (payable in advance) in respect of the provision of a registered office and a suitably qualified company secretary, plus additional amounts (payable in arrears) calculated on a time spent basis. In addition, an incorporation fee (payable in advance) of £1,000 is payable. All fees are subject to VAT (if applicable). Annual fees will be subject to review annually. The Administration Agreement is terminable by the Administrator or the Company on 60 days notice. The Administrator shall provide or procure the appointment of an individual employee who shall be qualified to act as secretary of an Isle of Man public company to act as secretary to the Company and, if required, another such qualified individual employee in succession to him. The Company agrees to indemnify the Administrator against liability arising out of its appointment, subject to exclusion in the case of negligence, wilful default, breach of contract, fraud or dishonesty on the part of the Administrator or any of its employees.

### **4. CORPORATE GOVERNANCE**

The Directors support high standards of corporate governance and confirm that, as soon as reasonably practicable following Admission, they intend to follow, where possible, the Corporate Governance Guidelines for AIM Companies published by the QCA. To this end, the Board has established an audit committee. The Board will hold at least four board meetings throughout the year.

The audit committee will be chaired by Mr. Svinhufvud and consist of Mr. Svinhufvud and Mr. van der Heijden. It will meet whenever there is business to discuss and at least twice each year. The audit committee is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. It will also meet the auditors and review reports from the auditors relating to accounts and internal control systems.

As there are no executive directors on the board, the Board has not established a remuneration committee. Nevertheless no Director will be permitted to participate in discussions or decisions concerning his own remuneration. It will be the responsibility of the Board to ensure that the terms of any termination of a directorship are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Nomination for appointment to the Board will be considered by the full Board.

## PART 3

### OVERVIEW OF THE UKRAINIAN PROPERTY MARKET

The Directors believe that it is relevant to consider the following factors in assessing the background to an investment in the Company:

#### COUNTRY PROFILE

Ukraine is the second-largest country in Europe with total land area of 603,700 km<sup>2</sup>. It has a strategic position in Eastern Europe, bordering the Black Sea in the south, Poland, Slovakia and Hungary in the west, Belarus in the north, Moldova and Romania in the south-west and Russia in the east.

Ukraine ranks among the thirty largest economies worldwide. In the Soviet era, Ukraine was the second most important republic in terms of its economic contribution, producing approximately 4 times the output of the next-ranking republic. Its fertile black soil generated more than one-fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain and vegetables to other republics.

Also, its diversified heavy industry supplied equipment and raw materials to industrial and mining sites in other regions of the former Soviet Union. Following the collapse of Soviet Union, the country progressed towards a market economy albeit at a gradual pace. The country was also slow in the implementation of structural reforms.

Following independence, the government created a legal framework for privatisation. However, widespread resistance to reforms within the government and from a significant part of the population soon stalled the reform efforts. A large number of state-owned enterprises were exempt from the privatisation process. In the meantime, by 1999, output had fallen to less than 40% of the 1991 level, although it recovered to slightly over the 100% mark by the end of 2006. From the early 2000's the economy started to show strong export-based growth of 5% to 10%, with industrial production growing more than 10% per year.

#### Economic Overview

Key indicators	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth (%)	12.1	2.7	7.0	6.0	5.7	6.0	6.3	5.8
Consumer price inflation (%)	9.0	13.5	9.1	12.5	9.0	7.0	6.5	5.3
Consolidated budget balance (% of GDP)	-2.9	-1.8	-1.8	-2.6	-2.3	-2.4	-2.5	-2.1
Current-account balance (% of GDP)	10.6	2.9	-1.6	-4.7	-6.0	-4.9	-2.9	-1.9
Commercial banks' prime rate (av;%)	17.9	16.4	15.0	14.0	12.5	11.5	10.5	10.0
Exchange rate HRN:US\$ (av)	5.32	5.12	5.05	5.10	5.18	5.22	5.27	5.29
Exchange rate HRN:€ (av)	6.61	6.39	6.34	6.84	7.07	6.75	6.69	6.67

Annual data	2006 <sup>(1)</sup>	Historical averages (%)	2002-06
Population (m)	46.5	Population growth	-0.7
GDP (US\$ bn; market exchange rate)	101.1	Real GDP growth	7.3
GDP (US\$ bn; purchasing power parity)	356.3	Real GDP growth	9.5
GDP per head (US\$; market exchange rate)	2,176	Inflation	7.4
GDP per head (US\$; purchasing power parity)	7,667	Current-account balance (% of GDP)	5.0
Exchange rate (av) :US\$	5.05	FDI inflows (% of GDP)	4.1

(1) Economist Intelligence Unit estimates

Source: Economist Intelligence Unit and State Statistics Committee and National Bank of Ukraine

#### Economic Growth

The Real GDP of the Ukrainian economy advanced 7% in 2006 demonstrating a strong comeback from a politically fragile 2005 following the Orange revolution in 2004. The increase in 2006 was due, in part, to renewed confidence in the economy by both domestic and international investors and a strong increase in consumer demand. The latter was fuelled by an increase in real disposable income of the population which has grown by 16.5% in 2006 following a growth of 23.9% in 2005. Real disposable income has grown due,

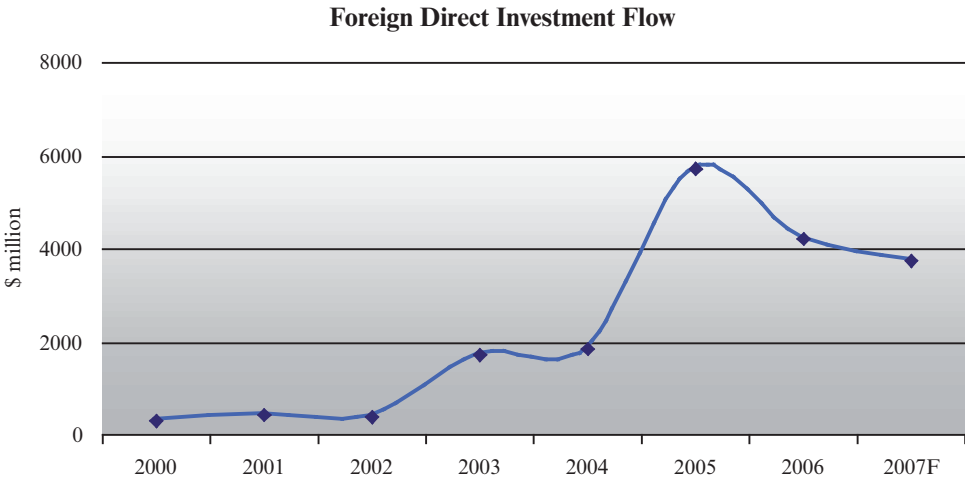
in part, to the delayed implementation of an upward adjustment to housing utility tariffs caused by new gas prices, the availability of more credit facilities and higher wages paid to public workers.

The consumer oriented industries benefited the most from the increase in real disposable income with food and machine-building industries expanding by 10% and 11.8% respectively, while the retail turnover grew by 25.3% during 2006. With regard to real estate related industries, in 2006 sales of construction services grew by 9.8% to \$7,531 million, while domestic construction materials production grew by 17% to \$3,147 million.

Ukraine’s economy has also benefited from strong exports with demand for steel, in particular, expanding by 8.9% during 2006. A further important contributor to GDP growth was resumed investment inflow. Gross fixed capital accommodation increased by 11% in 2006 to 23.1% of annual GDP as a result of increasing state investments and expansion of production capacities by enterprises.

**Investment – Foreign Direct Investment**

FDI has grown strongly during the two years ending 31 December 2006, more than doubling from 2004. During 2006, net FDI reached \$4.5 billion. The main driver of FDI growth is the continuing trend of increased government transparency and relaxation of entry barriers in various sectors as Ukraine is currently modifying its legislation to meet WTO requirements. Ukraine is seeking entry to the WTO and this is anticipated in 2007. Traditionally, the main interest of foreign investors has been directed to the banking sector following the purchases of several large banks that constituted one third of the whole FDI inflow in 2006. Moreover, a substantial increase in FDI was recorded in both the manufacturing and commercial services sectors of the economy. The Kyiv region attracts the largest proportion of foreign capital with 25%, or \$1.125 billion of the aggregate FDI.



Source: ICPS, State Statistics Committee

**POLITICAL SITUATION**

Ukraine has adopted a semi-presidential republican form of democracy with separate powers vested in the legislature, executive and judiciary. The orange revolution in 2004 led to the constitution being revised and this was implemented in January 2006. The main change in the constitution meant that the President gave up his right to nominate the Prime Minister and the right to nominate a majority of the cabinet ministers. However, the President continued to be able to nominate several key strategic cabinet ministers, subject to the approval of the Parliament.

The Prime Minister and most of the cabinet ministers are selected by a 450 seat Parliament called the “Verkhovna Rada”. Members of Parliament are selected using a system of proportional representation. In the most recent parliamentary election, in March 2006, the Party of the Regions received 32.24%, the Bloc of Yulya Tymoshenko got 22.29%, Our Ukraine recorded 13.95%, the Socialist Party of Ukraine recorded 5.69% and the Communist party of Ukraine recorded 3.66%

Following the election, a coalition was built from the pro-presidential party Our Ukraine, the Bloc of Yulia Tymoshenko and the Socialist Party. However, in July 2006, the Socialist Party defected and formed a new

majority alliance with the Party of Regions and the Communists. President Yushchenko and his Our Ukraine party were not prepared to go into opposition in parliament and he demanded concessions for his consent to cooperate with The Party of the Regions-led majority. The parliamentary majority gave a number of President Yushchenko loyalists key ministerial roles in the new coalition government and signed the so-called national unity pact which provided additional guarantees that the ruling coalition would not reverse the pro-western foreign policies outlined by the President.

### **The Current outlook**

In its latest offensive against the president, there have been several defections to the majority coalition. These defections will expand the majority coalition to approximately 260 members in the 450-seat Verkhovna Rada and may set a precedent for other opposition members to defect. This is welcome news for the ruling coalition, who are seeking to raise the number of members to 300, or a two-thirds majority, as this is the number it needs to be able to override presidential vetoes.

The current political unrest in Ukraine is set to continue as President Yushchenko will seek to restore authority against an increasingly powerful ruling coalition. On 2 April 2007, the President announced the dissolution of parliament and the constitutional court is due to meet to decide whether the order to dissolve parliament given by the President was lawful.

## **OVERVIEW OF THE UKRAINIAN PROPERTY MARKET**

Ukraine offers significant investment opportunities for foreign property investors mainly due to its large geographic scale, strategic location within Europe and scope for economic development from its current position. This, coupled with higher rental yields available in the Ukrainian real estate market, in comparison to most central and western European markets, has attracted a strong inflow of foreign investment into the sector.

### **Market Size**

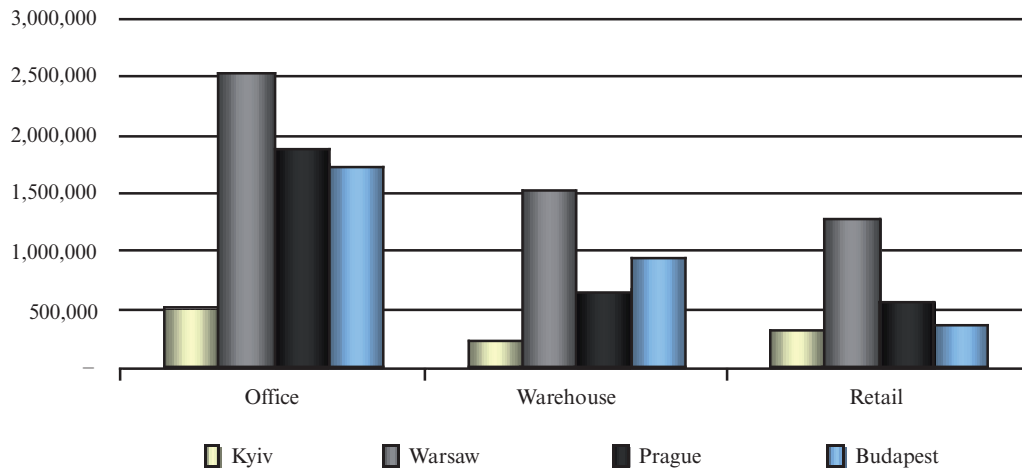
The Ukrainian investment property market is currently underdeveloped compared to other central and eastern European markets given the geographic size and economic potential of Ukraine and, in particular, the capital city, Kyiv. Currently, there is a limited amount of investment grade property in Kyiv which has restricted the level of real estate investment transactions. However, this does provide scope for a substantial amount of property development in order to create investment grade properties. A significant amount of investment funds have been earmarked for development and acquisition opportunities in the Ukrainian real estate market. It is estimated that over \$5 billion of capital is searching for investment (mainly through the acquisition of existing properties) in the Ukrainian real estate market.

At the current stage of the Ukrainian property market cycle, development appears to be more rewarding due to a strong demand for Class A and B properties (i.e. properties developed to western European standards) which is currently under-supplied. The Directors believe there are more opportunities to be found in the development of property than in investing in income-producing property assets. That is because only a limited amount of quality properties are currently available in the market which, for the most part, are not available for sale or are available only at high prices as a result of increasing demand from international and local real estate investors. Retail, office and hotel real estate transactions valued at \$300 million have been registered on the Kyiv property market within the last year. The leading transactions include Pyramida Shopping centre, Leonardo Business centre, Ukraina Shopping centre, Hotel Opera and The Millennium Business centre. These transactions represent the largest volume in the history of the Kyiv property market. However, the forecast pipeline of real estate transactions currently stands at over \$500 million with more transactions to follow when the development of current properties to the expected investment grade is completed.

### **Phase of Market Development**

During the last five years, the Kyiv property market has gone through a number of positive changes such as expansion of the market size and the general improvement of product quality. However, despite the progress made within the last few years, Kyiv remains a relatively immature market characterised by strong demand across all the property classes and sluggish delivery of quality supply by developers.

**Availability of modern real estate facilities  
by type, sq.m (2006)**



Source: DTZ, Colliers

Sources estimate that the office market will continue to grow with the volume of annual new supply increasing gradually in 2007-2008. However, given the presently large deficit and solid foundations for growth in demand, all the new stock is expected to be immediately absorbed by the market with market power resting fully with the landlords for at least a couple of years.

<b>Office space in Kyiv 2003 – 1H2006</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Stock (sq.m.)	246,658	342,000	445,000	535,000
New Supply (sq.m.)	72,805	95,330	93,300	90,000
Take-up (sq.m.)	50,718	55,000	98,800	95,000
Vacancy rate (%)	7	5	2.6	1.2

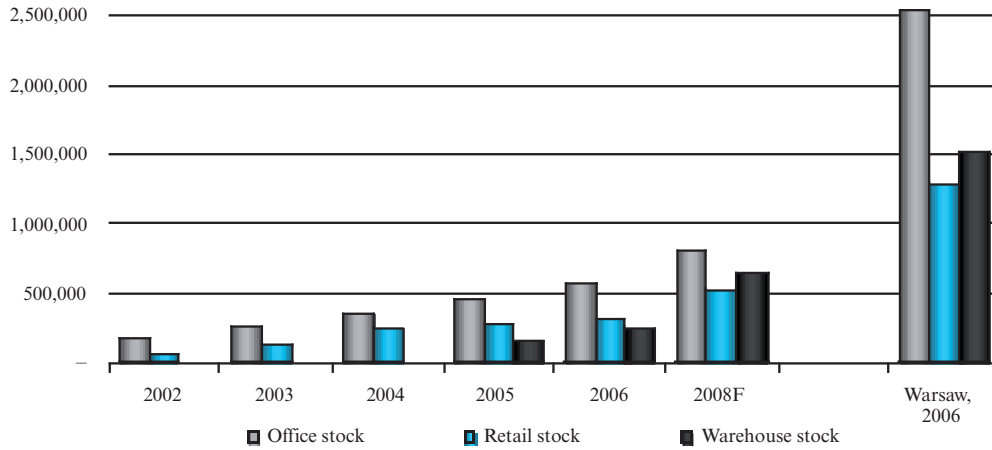
Source: DTZ

Following the office sector, other property segments have shown growth such as retail and industrial, with the former being actively developed throughout Ukraine and the latter being in its infancy stage of development, which presents strong development potential.

In the short-to-medium term, the prices in the commercial property market are expected to remain high due to strong demand and slow delivery of new properties to the market. Therefore, it is anticipated that the market will continue to provide current landlords and/or sellers with a strong opportunity to dictate prices. The development of additional quality western standard commercial property is expected no sooner than 2008-2009.

If the current pipeline of transactions announced during 2006 to 2007 were to materialise across all property classes Kyiv would still continue to lag behind its neighbouring capitals which, given the fact that the population of Kyiv (2.6 million) is significantly higher than Warsaw (1.7 million), Budapest (1.7 million) and Prague (1.2 million), clearly indicates the sectors' significant growth prospects.

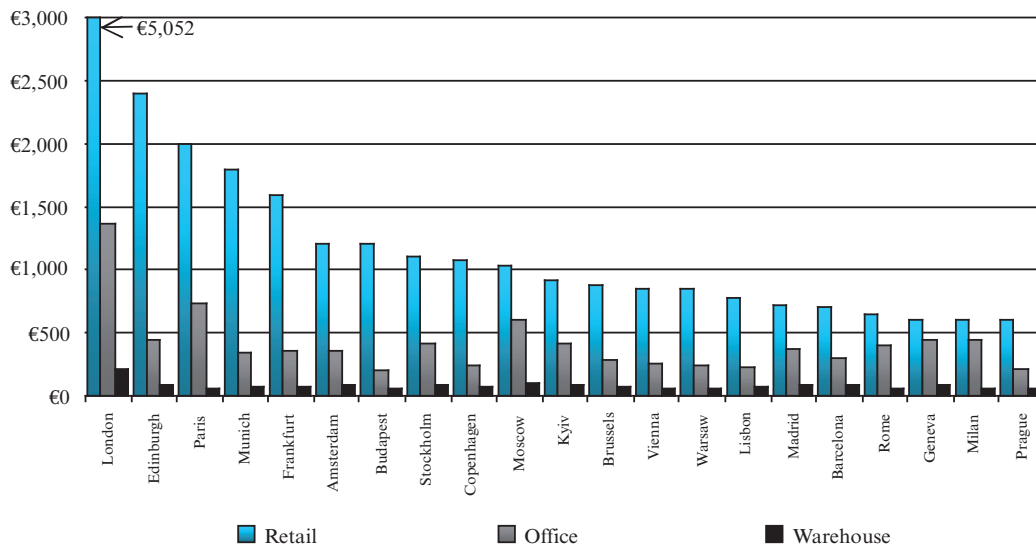
**Availability of modern real estate facilities by type, Kyiv sq.m**



Source: DTZ, Colliers

As a consequence of the limited availability of quality property stock across all classes and the significant rise in the demand for quality properties due to the economic development of Ukraine and Kyiv in particular, rental rates have increased considerably bringing the Kyiv property market to the level of some of the leading western European capital cities, as indicated by the chart below. Rental rates are expected by many to remain at high levels during the next few years as on going development of quality stock is expected to take more than several years to address the needs of the fast growing local market.

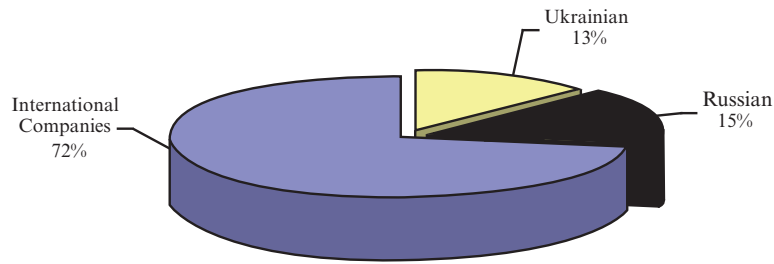
**Prime Rental Rates, Euro/sq.m/year (2006)**



Source: Knight Frank, DTZ

Over the past few years, a number of international companies have entered the Ukrainian market and, given the overall improvement of the economy, more foreign investors are expected to establish a presence in the country. The majority of the tenants of new office premises are international companies, while the balance is almost equally split between Ukrainian and Russian tenants.

### Take-up of New Office Space by Nationality

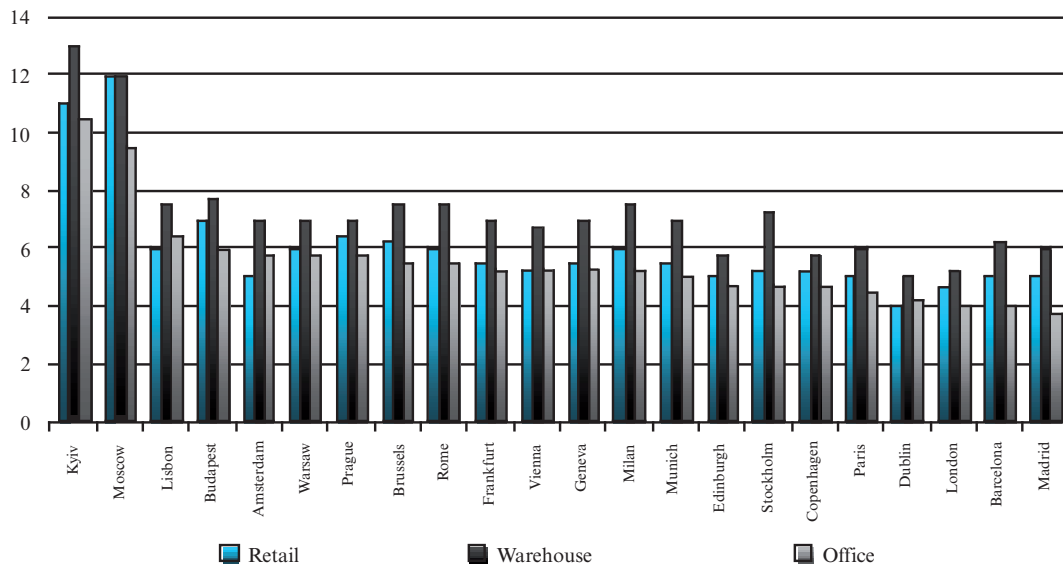


Source: Colliers 2007 Market Real Estate Review

The practice of rental payments in Ukraine being predominantly denominated in US dollars provides significant comfort to real estate investors, as it alleviates the risks relating to any future depreciation of the Ukrainian currency against the US dollar.

The availability of high rental yields in Ukraine, in comparison to other European countries where yields have been compressed due to the mature status of their property markets, is likely to continue attracting investors into the real estate sector. Currently, there is significant interest from foreign investors in purchasing income-generating property assets. However, there continues to be a price expectation mismatch between buyers and sellers, which has resulted in a limited volume of investment transactions in the market. There is also a shortage of investment grade properties in the Ukrainian market which reduces the scope for a strong secondary market in real estate transactions.

### Prime Rental Yields, %

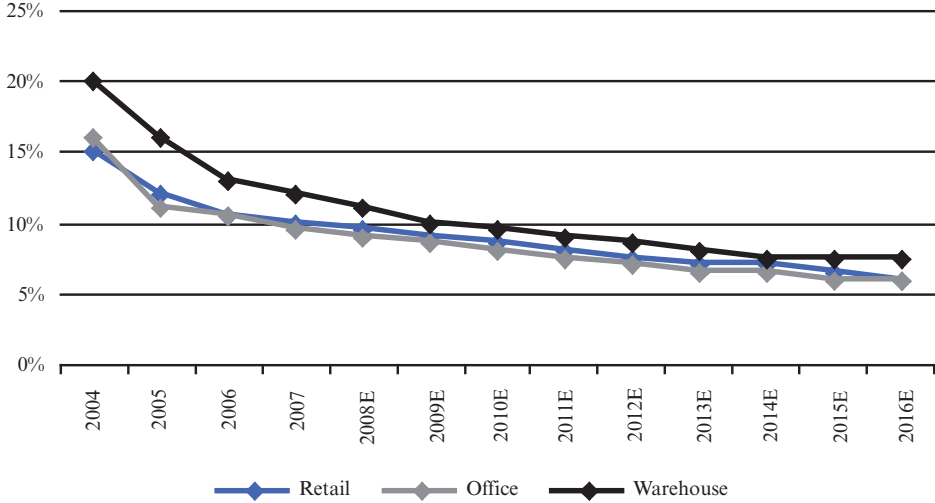


Source: Knight Frank, DTZ



Following the example of central European countries, yields are expected to compress further and eventually, over the long term, approach the current yield levels of neighbouring countries in central and eastern Europe. The Directors believe that this will result in a gradual increase of property values, which, coupled with significant under-supply of quality real estate assets is providing a serious incentive to proactive real estate developers.

**Forecasted Yield Compression**



Source: DTZ

## PART 4

### OVERVIEW OF UKRAINIAN PROPERTY LAW & PRACTICE

#### GENERAL

The *Law of Ukraine On Ownership*, dated 7 February 1991, specifically recognised and honoured private ownership and mentioned Ukrainian residents, foreign individuals and foreign legal entities among those entitled to own property in Ukraine. Moreover, the *Law on Ownership* specifically permitted owners of property, including foreign investors and joint ventures, to use such property for commercial purposes, to lease such property, and to keep the revenues, profits, and production derived from the use of such property.

Under the *Constitution of Ukraine*, foreign citizens enjoy the same rights and freedoms and bear the same responsibilities as Ukrainian citizens, including property rights. According to the Law on Ownership, foreign citizens and legal entities are entitled to own property in Ukraine, unless otherwise provided for in the international treaties of Ukraine or other Ukrainian laws. The Ukrainian courts ensure protection of property rights in accordance with the applicable Ukrainian laws.

#### PROPERTY RIGHTS REGISTRATION

Property rights to real estate (ownership, lease rights, and servitudes) are subject to state registration. Currently information regarding transactions with real estate is recorded in several registers including the state register of legal acts, the state register of mortgages and the state register of pledges. Ukrainian law provides for the establishment of a single unified information register of rights to land plots and buildings (capital structures) as well as their encumbrances. Thus, once brought into force, it will eliminate the currently existing plurality of property rights registers.

#### LEASE OF REAL ESTATE PROPERTY

The *Civil Code of Ukraine* contains general provisions governing the lease of movable and immovable property. It also defines the material terms and conditions of a lease agreement. Thus, the lease of a building (or other capital structure) or part thereof must be concluded in writing, and must be notarised and state registered if entered into for a period of three years or longer. The lease of state and municipal property is governed by *Law of Ukraine On the Lease of State and Municipal Property*.

According to the Decree of the Cabinet of Ministers of Ukraine *On State Duty*, parties to a lease agreement must pay a state duty for notarisation of a lease agreement in the amount of 0.01% of the contract price of a lease agreement for a building or other capital structure.

#### LAND OWNERSHIP

The principal law governing land issues in Ukraine is the *Land Code of Ukraine* (the *Land Code*). The Land Code applies to all types of land in Ukraine; it clearly distinguishes between agricultural and non-agricultural land, and it establishes a different legal treatment for each type of land.

The *Land Code* provides for the following types of rights to land in Ukraine: ownership; perpetual/indefinite use; short-term lease; long-term lease; and servitudes (easements).

The *Land Code* expressly states that there are three types of ownership of land in Ukraine: private, municipal, and state. Subject to certain limitations, Ukrainian individuals and legal entities are no longer restricted in their ownership, use, or disposition of land.

Foreign individuals, legal entities and foreign states are allowed to own, use and dispose of certain non-agricultural land in Ukraine, but are explicitly prohibited from owning agricultural land. Foreign legal entities may own only non-agricultural land: within the city limits, if they purchase buildings or structures or land plots for construction purposes; and beyond the city limits, if they purchase buildings or structures. State or municipal land may, however, be sold to a foreign legal entity if it establishes and registers its permanent establishment in the form of a commercial representative office in Ukraine.

The *Land Code* appears not to grant the right to own any land in Ukraine to Ukrainian companies with 100% foreign investment, stipulating that only those Ukrainian legal entities which have been founded by

Ukrainian individuals or legal entities and joint ventures may own land in Ukraine. However, the *Land Code* does not contain any similar restrictions with respect to the lease of land by Ukrainian legal entities with 100% foreign investment. Since this discrepancy appears to be an anomaly, it is expected that amendments to the *Land Code* will be adopted to rectify this defect respectively.

Most recently, Verkhovna Rada (Parliament) of Ukraine introduced amendments to the *Land Code* whereby it extended the moratorium on the alienation of certain types of agricultural land. In addition, during the moratorium, privately owned agricultural land cannot be rezoned for any non-agricultural use including commercial use. The moratorium will continue at least until 1 January 2008 but in any event until the adoption of the laws on state land cadastre and on land market.

Unlike previously, the right of perpetual use of land may now be granted only to state and municipally owned companies and to public organisations of disabled people, their legal entities, unions, institutions and organisations. Individuals or their heirs who owned land plots in Ukraine before 15 May 1992 (the date on which the previous version of the *Land Code* took effect) have no right to receive such land plots back into their ownership. Therefore, no restitution of land ownership will be carried out, based on historical land use rights.

## **LAND LEASE**

The *Land Code* contains a number of general provisions with respect to land lease. All Ukrainian and foreign individuals and legal entities, foreign states, and international organisations may lease land in Ukraine. The *Land Code* provides for two types of land lease: short term (up to five years) and long-term (up to 50 years).

Currently, land lease relations are governed in detail by the *Law of Ukraine On Land Lease* (the *Land Lease Law*). According to the Land Lease Law, land lease agreements must be in writing and must contain, *inter alia*, the plan (scheme) of the land plot as well as certain material terms and conditions. A land lease agreement should be registered with the local state authorities.

The procedure for the lease of public lands is set forth in the *Land Code* and the *Land Lease Law*. Currently, public lands can be leased out pursuant to the decision of the respective local council or through tender procedure. However, this procedure can be changed in the near future, should draft law No. 2520 be adopted, providing that lease rights to vacant (undeveloped) state or municipal lands must be acquired through tender procedure only.

According to the Decree of the Cabinet of Ministers of Ukraine *On State Duty*, parties to a land lease agreement must pay a state duty for notarisation of a land lease agreement in the amount of 0.01% of a land appraisal amount.

## **CONSTRUCTION**

Under Ukrainian law, construction activities (research and project work for construction, erection of supporting and filler structures, as well as construction and assembly of engineering and transportation systems) require mandatory licensing. Also, certain work associated with construction, such as land planning and land valuation; topographic and geodetic works; engineering, assembly and technical maintenance of fire safety and heating systems, must be performed pursuant to an appropriate license.

In addition to licensing/attestation requirements, Ukrainian law provides for a number of other relevant approvals and permits, which must be obtained by a person intending to carry out construction operations. Thus, the process of construction includes allocation of the land for construction of a given object; obtaining a construction permit from the local authorities; developing a construction project which should be subject to a comprehensive state construction examination; and obtaining a permit to commence construction work from the local construction authorities.

## PART 5

### RISK FACTORS

**In addition to the other information set out in this document, the following general and specific risk factors should be considered carefully in evaluating whether to make an investment in the Company. If any of these risks actually occur, the Company's business, financial condition, results of operations or future operations could be materially adversely affected. In such case, the price of the Ordinary Shares could decline and investors may lose part or all of their investment.**

**An investment in the Company is only suitable for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses (which may be equal to the whole amount invested) which may result from such an investment. Prospective investors should carefully review and evaluate the risks and other information contained in this document before making a decision to invest in the Company.**

**The Company has described the risks and uncertainties that the Directors believe are material, but these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties, including those of which the Directors currently have no knowledge or which they deem to be immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the price of the Ordinary Shares.**

**The risks are not presented in any order of priority.**

#### **GENERAL RISKS RELATING TO ORDINARY SHARES**

Currently, there is no liquid market for the Ordinary Shares and there is no history of trading in the Ordinary Shares. Admission should not be taken as implying that there will be a liquid market for the Shares. Moreover there can be no assurance that following Admission any active trading market in the Ordinary Shares will develop or be sustained or that investors will be able to resell Ordinary Shares at or above the Placing Price or at all. It is likely to be more difficult for an investor to realise its investment in a company whose shares are admitted to trading on AIM than to realise an investment in a company whose shares are quoted on the Official List.

#### **Volatility in the value of Ordinary Shares**

The value of Ordinary Shares may be volatile and may go down as well as up. Investors may not recover all or any of their original investment, especially as the market in Ordinary Shares on AIM may have limited liquidity. There is also no guarantee that the market price of the Ordinary Shares will reflect the underlying value of assets held by the Company.

The price at which investors may dispose of their Ordinary Shares may be influenced by numerous factors of which some may be due to the Company and others will be due to external factors including the Company's performance, the amount of dividends paid by the Company, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, changes in applicable legislation, regulation or taxation and general economic conditions. Past performance is not necessarily an indication of future performance.

Financial turmoil in emerging markets could also cause the price of the Ordinary Shares to suffer. Financial turmoil in emerging markets has previously adversely affected market prices in securities of companies operating in the affected developing economies. There can be no assurance that volatility stemming from financial turmoil in the Ukraine or other emerging markets, will not adversely affect the price of the Ordinary Shares even if the Ukrainian economy remains relatively stable

#### **Future issues or sales of Ordinary Shares may affect the market price**

Future sales of substantial numbers of Ordinary Shares by Shareholders or the perception that such a sale might occur could adversely affect the market price of the Ordinary Shares. In addition, future equity offerings by the Company may dilute the percentage ownership of existing Shareholders. In certain circumstances securities issued by the Company in the future may have rights, preferences or privileges attached to them that are senior to or otherwise adversely affect those attached to the Ordinary Shares.

## **GENERAL RISKS RELATING TO THE COMPANY'S REAL ESTATE INVESTMENTS**

### **Property investment risks**

Property assets can be illiquid, particularly in emerging markets. The marketability and value of properties directly or indirectly invested in by the Company will, therefore, depend on many factors beyond the control of the Company and there is no assurance that there will be either a ready market for any properties in which the Company invests or that such properties will or can be sold at a profit or return the amount spent on them. Investments in Ukrainian property may be difficult, slow or impossible to realise. The value of the Company's investments will be subject to the general risks incidental to the ownership and development of real property, including changes in the supply of or demand for competing properties in an area, changes in interest rates and the availability of mortgage and other debt funding, changes in property tax rates and laws affecting title to real property, landlord and tenant relationships, planning, building control and the environment, credit risks of contractors and sub-contractors, tenants and borrowers, risks associated with construction activity (including delays and defects in workmanship) and environmental factors.

The performance of the Company will be adversely affected by any downturn in the Ukrainian property market through capital valuations, rental yields achieved or liquidity. In the event of a default by a tenant or during any other period during which a property is not let, the Company will suffer a rental shortfall and may incur additional expenses until the property concerned is re-let. These expenses could include legal and surveyors' costs incurred in re-letting, maintenance costs, insurances, local property taxes and marketing costs. Rental levels and the market values for properties are generally affected by overall conditions in the economy, such as growth rates and absolute levels of gross domestic product, employment trends, inflation and changes in interest rates. Rent reviews, to the extent they are present, may not be agreed at previously estimated rental values. In addition changes in Ukrainian law relating to foreign ownership of property might have an adverse effect on the net returns from the real estate developments financed by the Company.

### **Market cycle**

The Directors believe that the property market is subject to market cycles. Accordingly timing is important and there is a risk that the market cycle will move against the Company which it may not be able to mitigate.

### **Timing of sales**

Real estate investments cannot generally be sold quickly. In addition the Company's properties are likely to be subject to financing covenants and may be encumbered, which will further restrict their transferability. As a result, the Company may not be able to change or restructure its portfolio promptly in response to economic or other conditions, which could have an adverse effect on the business, financial condition and operational results of the Company.

### **Competition**

The Company will face competition from other owners, operators and developers of commercial, residential and industrial properties which may affect the Company's ability to sell attract and retain tenants and force the Company to reduce its rents. These competing properties may have vacancy rates higher than the Company's properties, which may result in their owners being willing to make space available at lower rental rates than the space in the Company's properties.

The Company also expects other real estate investors with significant capital at their disposal to compete with the Company for attractive investment opportunities including international developers and institutional investment funds. This competition could increase property prices. The Company will face similar competition with other property owners in its efforts to realise assets, which may result in lower sale prices. Any such increase in prices for properties acquired or decrease in prices for properties could impair the Company's growth prospects or reduce the available capital of the Company, either of which could result in a decline in the market value of the Ordinary Shares.

### **Construction and development risks**

The Company intends to develop and manage real estate, which will subject it to the general risks associated with construction and development projects. The Company's development and construction activities may involve the following risks:

- the Company may be unable to obtain suitable financing;
- the Company may incur construction or renovation costs exceeding original estimates due to increased material, labour or other costs, which could make completion of a project uneconomical;
- the Company may be unable to obtain, or face delays in obtaining or find itself unable to comply with required land-use, building, occupancy and other necessary governmental permits and authorisations, which could result in increased costs, delays or the abandonment of projects;
- the Company may be suffer delays in construction and leasing of properties resulting in increased debt service expense or in the termination of relevant financing arrangements;
- the Company may have to lease developed properties at below anticipated rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, which may result in the Company's investment not being profitable.

Kyiv's planning and approval process is bureaucratic and involves uncertainty. A number of preliminary planning approvals are necessary to obtain a land lease and, following the grant of a lease, approval from the department of Architecture and Urban Planning is required, in addition to confirmation of the technical conditions of the proposed project from the City's main utility providers, fire, health and safety, environmental protection and sanitary departments. These requirements may hinder, delay or significantly increase the costs of the Company's developments, all of which may materially adversely affect the business, financial condition and results of operations of the Company.

#### **Challenges to ownership interests or lease rights**

The Company may acquire interests in other companies which own or have lease interests in land plots and buildings in Kyiv and other parts of Ukraine with a view to further development or re-development.

Ukrainian land and property legislation is complicated and often ambiguous and/or contradictory. In particular, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that in practice are almost impossible to comply with. As a result, the Company's future lease rights to land may be challenged by governmental authorities or third parties, construction projects may be delayed or cancelled and the operation of completed properties may be suspended, which could materially adversely affect the business, financial condition and results of operations of the Company.

#### **Changes in laws**

Various laws and regulations, including fire and safety requirements, environmental regulations, land use restrictions and taxes may affect the Company's properties. If the properties do not comply with these requirements, the Company may incur governmental fines or private damages awards. New or amended laws, rules, regulations or ordinances could require significant unanticipated expenditures or impose restrictions on the development, construction or sale of properties. Such laws, rules, regulations or ordinances may also adversely affect the Company's ability to operate or resell properties.

#### **Relationships with governmental authorities**

Land in Ukraine was historically owned by the state and in most regions, including Kyiv, the state and local governments are still the major landowners deciding when and how to sell or lease land. Ukrainian governmental authorities have a high degree of discretion when selling land and allocating real estate projects. The Company's business will depend on establishing positive working relationships with relevant government authorities. The business, financial condition and results of operations of the Company could be materially adversely affected if such relationships deteriorate in the future.

### **RISKS RELATED TO THE COMPANY**

#### **New company**

The Company was incorporated on 23 February 2007, has not yet commenced business and has no operational or financial history. Although the Company has access to personnel with extensive experience in property development, it has no investment or development history. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that the

Company will not achieve its investment objective. There can be no assurance that the Company will be able to achieve the returns outlined in this document. The results of the Company's operations will depend on many factors, including the availability of acquisition opportunities, appropriate financing, the level and volatility of interest rates, the performance of the Manager, the property development and other operational risks disclosed above and general political and economic conditions in Ukraine. In particular, if property values and prices in Ukraine rise significantly before the net proceeds of the Placing are invested, the potential returns from property investment, and therefore available to Shareholders, may be less than those targeted by the Company.

#### **Dependence on the Manager**

The continued success of the Company will depend to a material extent on the continued services of the Manager. There can be no assurance that such services will continue to be available. The loss of the Manager's services could have a significant adverse effect on the Company's performance. The experience of the Manager in the Ukrainian real estate development market is not a guarantee of the success of any future project or of any other projects sourced from the Manager. Although the Company intends to exploit the Manager's experience and market knowledge, there can be no assurance that the involvement of the Manager will ensure that the Company's investments will be profitable. In particular, the Manager's past experiences do not guarantee that any of the Company's projects will be completed on time, on budget or at all and a delay or an inability to complete any such project would have a material adverse effect on the Company's financial condition and the value of the Company's investments.

The Manager is reliant on certain key individuals within the organisation including Chris Kamtsios, Volodymyr Tymonchko, Eugene Baranov, Oleg Kurinnoy, Yulia Klimenko and Denis Vaschenko. There is no guarantee that these individuals will remain with the Manager and if any of them were to leave the Manager it may be unable to find sufficiently expert replacements.

#### **No binding agreements for projects**

The Company has not entered into any legally binding agreements in relation to any projects and there can be no guarantee that the Company will ultimately be able to invest in any of the opportunities available to it on terms satisfactory to it or at all. Investments in such opportunities will be conditional on, amongst other things, receipt of all necessary consents, approvals, authorisations and permits, the availability of finance on suitable terms, satisfactory completion of due diligence, feasibility, analyses, agreement on land valuation and the working capital needs of the project and the entering into of binding agreements in a form acceptable to all the parties thereto. In particular there can be no assurance that the results of due diligence and/or feasibility and valuation analyses with respect to any opportunity available to the Company will be satisfactory or that the Company will be able to negotiate final agreements for any such project on acceptable terms.

#### **Uninvested resources**

A proportion of the Company's resources may be held in cash from time to time. As such assets will not be invested in property it will not benefit from positive market movements. Having excess uninvested cash may restrict the Company's capital and income growth.

#### **Dividends**

There is no guarantee that the expected dividends in respect of any financial year will be paid.

#### **Borrowings**

The use of significant levels of borrowings is intended to enhance returns on capital committed to a project and, as a result, the net asset value of the Company where the value of the Company's property is rising. However it will have the opposite effect where the underlying value of the property is falling. The use of borrowings also presents the risk that the Company is exposed to increases in interest rates and may be unable to service interest payments and principal repayments or comply with other applicable conditions, rendering borrowings immediately repayable in whole or in part, together with any resulting cost, with the risk that borrowings will not be able to be refinanced or the terms of any such refinancing may be less favourable than the existing terms of borrowing or that the Company may be required to sell some of its assets at inopportune times. The existence of cross-default provisions could magnify the effect of an

individual default and, if such a provision were exercised, this could result in a substantial loss for the Company.

The release of bank financing is likely to be staged and conditional on milestones in the development of the relevant project being reached. In the event that the relevant development does not proceed as expected (due to unexpected factors such as accidents, supplier defaults or zoning or title disputes or due to other reasons such as falling behind schedule), the lender or lenders may refuse to provide further financing and/or impose penalty payments. In addition, should cost overruns be incurred, covenants may be breached and a default may occur. If the Company is unable to arrange alternative financing, it may have to seek to raise funds by finding subscribers for additional equity. If the Company's shareholders are unwilling to provide funding and the Company cannot find other subscribers, it may not be possible to complete the project. This may result in enforcement of security over the project.

In the event of a winding-up of the Company, the return of capital on Ordinary Shares will rank behind any liabilities of the Company and therefore any return of capital to Shareholders will depend on the Company's assets being sufficient to meet the prior entitlements of any creditors in full.

#### **Future capital requirements**

If the Company's capital requirements vary materially from its current plans, it may require further financing. There can be no assurance that any future equity financing will not be dilutive to Shareholders or that Shareholders will take up any offer to participate in such equity financing. Further, any debt financing, if available, may involve the Company assuming restrictions on further financing, distributions and operating activities and may result in the Company's assets being used as security. Debt financing may also expose the Company to the risk of interest rate fluctuations. There can be no assurance that the Company will be able to raise additional funds when needed or that such funds will be available on terms acceptable to the Company. In such an event it is possible that the Company will be unable to invest in future development projects.

#### **Fluctuating asset values**

The value of the assets in which the Company invests may fluctuate and there is no guarantee that the amounts invested by the Company will be returned in whole or in part. The Ukrainian property market may experience short-term volatility and investment in the Company should be regarded as long-term in nature.

#### **Performance Fees**

The Manager will be entitled to receive payment of certain performance fees, the amount of which will depend upon the relative success of the Company's investments. Such performance fees may create an incentive for the Manager to advise the Company to make investments that are riskier or more speculative than would be the case if such performance fees were not payable to the Manager.

#### **No guarantee as to future performance**

There can be no assurance that the Company will be able to achieve the returns referred to in this document or that it will be fully invested within the timescales indicated.

### **RISKS RELATED TO TAXATION**

#### **Ukrainian Taxation**

In comparison with more developed market economies, the tax laws of Ukraine have not been in force for a significant period of time. The tax laws of Ukraine are subject to frequent changes and amendments, which could have an adverse effect on the Company and its business. For example, with effect from 1 January 2007, personal income tax was reformed by the introduction of a new flat tax of 15%. In addition, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30% to 25%.

It is, therefore, possible that the Company could become subject to Ukrainian taxation which is currently unexpected or unanticipated when investments are made, valued or disposed of. It is also possible that the current interpretation of the law or understanding of practice may change, in some cases retrospectively. As the domestic tax burden in Ukraine is still high, the Company may make investments through intermediate investment vehicles with a view to taking advantage of, *inter alia*, double taxation treaties to which other countries are a party. There can be no assurance that treaty benefits will be or remain available to the Company.



### **Cyprus taxation**

Although no adverse changes in Cypriot taxation legislation are expected in the foreseeable future such a possibility cannot be excluded. Such changes could have an adverse impact on the tax burden on any subsidiaries of the Company incorporated or resident in Cyprus.

### **Cyprus/Ukraine double tax treaty**

Cyprus and Ukraine have recently renegotiated the double tax treaty between them but it has not yet been ratified and there is currently no indication as to when the new treaty will come into force. The current draft of this proposed new treaty provides for 10% withholding tax on interest, 5% on dividends (in case of dividends from Ukrainian companies to Cypriot companies) and allows Ukraine to tax the gain on sale of Ukrainian shares held by a Cyprus resident if the principal underlying asset is Ukrainian real estate. The introduction of the new treaty could adversely affect the tax position of any subsidiaries of the Company incorporated or resident in Cyprus. The Company and its advisers will continue to monitor the passage of the draft treaty and will consider taking any necessary action in order to mitigate any adverse impact that the new treaty may have.

### **Isle of Man Taxation**

Although no adverse changes in Isle of Man taxation legislation are expected in the foreseeable future such a possibility cannot be excluded. Such changes could have an adverse impact of the tax burden of the Company.

## **RISKS RELATED TO UKRAINE**

Described below are certain risk factors which relate to investing in Ukraine and which are not usually associated with investing in developed economies. They are in addition to the normal risks inherent in any equity or debt investment.

### **Political and General Economic Risk**

The economic and political conditions in Ukraine differ markedly from those in Western European countries, the United States of America and Japan, with less social, political and economic stability. A free market economy and transparent capital markets cannot yet be said to be well established in Ukraine. Since 1991, Ukraine has sought to transform itself from a centrally controlled, one-party state to a market oriented democracy. Although progress has been made since independence in reforming Ukraine's economy and its political and judicial systems, that transition is still under way.

Following the election of Victor Yushchenko as President of Ukraine in February 2005, the President's policies are generally expected to have a positive effect on the economy and on the political stability of Ukraine. However, he faces several challenges: appeasement of the divergent factions within the Eastern and Western regions of Ukraine; recovery of relations with Russia; implementation of unpopular economic reforms and building of a political consensus. There is no certainty that President Yushchenko's policies will succeed or agreement amongst the coalition parties will be achieved. In addition, the parliamentary coalition which was formed following the Parliamentary elections held in March 2006, and the new Government formed during the second half of 2006 has not yet demonstrated long term stability. Further information on the current situation is set out on pages 21 and 22 of this document. Political instability in Ukraine may have negative effects on the economy and, thus, on the business, financial condition and results of operations of the Company.

Although Ukraine generally maintains positive relations with its neighbours, any major changes in Ukraine's relations with Russia, in particular, any changes adversely affecting energy supplies from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and, thus, on the business, results of operations and financial condition of the Company.

The Ukrainian economy has been subject to abrupt and violent economic downturns. There can be no assurance that the recent positive trends in the Ukrainian economy, such as a stable currency, a lower rate of inflation and growth in GDP, will continue. Substantial adverse economic conditions in Ukraine could have an adverse impact on the value of the Company's investments. The Company will also be exposed to the risk of changes in Ukrainian legislation relating to foreign investments.

## **Nationalisation**

Since 1991, Ukraine has undertaken a substantial programme of privatisation. There were sentiments in the Ukrainian Government supporting ideas of reviewing the results of recent privatisations. This resulted in the revision of the prior ownership arrangements and re-auctioning in 2005 of Krivorozhstal, the largest domestic steel manufacturer, and its further new privatisation by means of an auction. Thus it is also conceivable that some privatised companies of strategic importance to the state may be returned to state control.

## **Risks associated with emerging markets including Ukraine**

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this document may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Ordinary Shares.

## **Official statistics and other data in this document may not be reliable**

Official statistics and other data published by Ukrainian State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases to those used in more developed countries. The Company has not independently verified such official statistics and other data and any discussion of matters relating to Ukraine in this document is therefore subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this document has been extracted from official governmental sources in Ukraine and was not prepared in connection with the preparation of this document. The Company accepts responsibility only for the correct extraction and reproduction of such information.

The lack of publicly available data on the real estate market in Ukraine makes it difficult to value real estate properties. There is a limited amount of publicly available data and research relating to the real estate market in Ukraine. Recently, a number of organisations have begun to publish statistical and other research data with respect to the Ukrainian real estate market. However, such data is generally narrower in scope and less consistent than data relating to real estate markets in other industrialised countries.

## **Legal Risks**

An investment in Ordinary Shares may be subject to greater risks and uncertainties than an investment in the shares of a company whose primary activities will be conducted in a country with a more mature legal system. Since 1991, as Ukraine has been transforming from a planned to a market based economy, the Ukrainian legal system has also been developing to support this market based economy. Ukraine's legal system is in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system may include:

- (i) inconsistencies between the Constitution of Ukraine and various laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions, and other acts;
- (ii) provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- (iii) the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- (iv) the general inconsistency in judicial interpretation of Ukrainian legislation in the same or similar cases; and,
- (v) the fact that several fundamental Ukrainian laws either have only recently become effective or are still pending hearing or adoption by the Ukrainian parliament.

The recent origin of much Ukrainian legislation, the lack of consensus about the scope, content, and pace of economic and political reform, and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt and may result in ambiguities, inconsistencies, and anomalies.

### **Currency and Repatriation Risks**

No guarantee can be given that profits realised in Ukraine will be capable of being repatriated. Subject to relevant tax withholdings and other restrictions, current policy in Ukraine envisages the repatriation of contributions to equity capital and the revenues and dividends deriving therefrom, the repatriation of revenues from the sale of securities and the dividends thereon, and credits and revenues used to repay credits. Unpredictable changes in exchange control regulations, tax law and monetary policy may result in the accumulation of substantial amounts of local currency which is not convertible or not readily convertible into foreign currency. The Company is also subject to risks of continued inflation and the possibility of limited foreign currency available for exchange.

The value of the assets of the Company and its income, as measured in US dollars, may suffer significant declines due to disruptions in currency markets or may be otherwise adversely affected by exchange control regulations or by changes in the method of controlling exchange rates or limiting exchange rate movements. Currency devaluations may occur without warning and are beyond the control of the Directors, the Company and the Manager.

### **Corruption and Money Laundering Risks**

External analysts have identified corruption and money laundering as serious problems in Ukraine. In September 2006, the President of Ukraine adopted a Concept Paper entitled "On the Way to Integrity". This analysed risks and provided possible ways to prevent and combat corruption. The Ukrainian Ministry of Justice is looking to implement the Concept Paper through an action plan, setting out responsibilities, deadlines and budgetary allocations. In accordance with recent amendments to the anti-money laundering legislation of Ukraine, the National Bank of Ukraine, jointly with other state authorities and financial institutions of Ukraine is required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the passage of such new legislation, the Financial Action Task Force on Money Laundering ("FATF") removed Ukraine from its list of Non-Co-Operative Countries and Territories in February 2004. Investors should be aware that there is no guarantee that such measures will be successful and that incidents of corruption and money laundering will be reduced. Any future allegations of corruption in Ukraine, or any evidence of money laundering, could have a negative effect on the ability of Ukraine to attract foreign investment and consequently on the economy of Ukraine and the business of the Company.

### **Environmental Risks**

The lack of pollution control and environmental conservation policies during the Soviet period means that significant environmental clean-up costs are likely to be incurred not only by the state and local governments, but also by private enterprise.

Ukrainian and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at or affecting such property. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability on the party which caused the contamination of the site. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. The extent of the environmental clean-up costs to be borne by any property or company is unlikely to be determined at the time when the Company is considering an investment.

## **OTHER RISKS**

### **Forward looking statements**

All statements other than statements of historical facts included in this document, including, without limitation, those regarding the Company's financial position, business strategy, plans and objectives of management for future operations or statements relating to expectations in relation to dividends or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof, are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance, achievements of or dividends paid by, the Company to be materially different from future results, performance or achievements, or dividend payments expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. These forward looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in the Company's expectations with regard thereto, any new information or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by law or any appropriate regulatory authority.

## **PART 6**

### **FINANCIAL INFORMATION RELATING TO THE COMPANY**

The historical financial information for the Company is set out in Section A of Part 6 of this document.

The financial information in respect of the period ended 28 February 2007 does not constitute statutory accounts. No statutory accounts have been prepared by the Company for any period since incorporation.

The Directors are required to prepare the financial information in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the AIM Rules, the financial information is required to give a true and fair view of the state of affairs of the Company for that period. In preparing that financial information, the Directors are required to:

- (a) select suitable accounting policies and apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent; and
- (c) prepare the financial information on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Section B of Part 6 of this document sets out a report from Baker Tilly Corporate Finance LLP, the Reporting Accountants, required by Paragraph 20.1 of Annex I of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

## Section A

### INCOME STATEMENT

The Company was incorporated in the Isle of Man on 23 February 2007 and has not traded, prepared any financial statements for presentation to members or incurred neither profit nor loss, since the date of incorporation. Accordingly, no income statement is presented.

### BALANCE SHEET

	Notes	As at 28 February 2007 US\$
<b>Current assets</b>		
Receivables	2	4
		<hr/> 4
<b>Equity</b>		
Share capital	3	4
		<hr/> 4

### STATEMENT OF CHANGES IN EQUITY

	Share capital US\$
Balance at incorporation	-
Shares issued	4
	<hr/> 4
Balance at 28 February 2007	<hr/> 4

### CASH FLOW STATEMENT

The Company has not had any inflows or outflows of cash or cash equivalents since the date of incorporation on 23 February 2007. Accordingly, no cash flow information is presented.

### NOTES TO THE FINANCIAL INFORMATION

#### 1. Accounting policies

The principal accounting policies, which have been consistently applied in the Company's financial information are as follows:

#### *Statement of Compliance*

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations, as adopted in the European Union.

At the date of authorisation of this document the following Standards and Interpretations which have not been applied in this financial information were in issue but not yet effective:

IFRS 6	Exploration for an Evaluation of Mineral Resources
IFRS 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease

- IFRIC 5 Rights to interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2 Share-based Payment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company when the relevant standards and interpretations come into effect.

***Basis of Preparation***

The financial information is presented in US Dollars and is prepared on the historical cost basis.

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are both readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

***Foreign currencies and presentation currency***

The Directors consider that the most appropriate measurement and presentation currency for this financial information is US Dollars as this will be the presentation currency going forward. Assets have been converted to US Dollars for presentation purposes at a closing rate of US\$1 = £0.51 as at 28 February 2007.

Transactions in currencies other than US Dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

**2. Receivables**

	As at 28 February 2007 US\$
Amounts owing from issue of subscription shares	4
	4

### 3. Share capital

	As at 28 February 2007 US\$
<b>Authorised</b>	
2,000 ordinary shares of £1.00 (\$1.96) each	3,920
<b>Issued but not fully paid for</b>	
2 ordinary shares of £1.00 (\$1.96) each	4

On incorporation 2 ordinary shares of £1.00 each were issued at par.

### 4. Post balance sheet events

The Company intends to allot and issue • Ordinary Shares pursuant to the Placing. These allotments are conditional on Admission.

On 16 May 2007, the Company entered into the Management Agreement with the Manager pursuant to which the Manager has agreed to provide advisory, management and monitoring services to the Company. In consideration for its services thereunder, the Manager is entitled to be paid an annual management fee of 1.5% of the GAV of the Company at the end of the relevant accounting period or part thereof. Further details of this agreement and other material contracts is given in paragraph 9 of Part 8.

On 16 May 2007, all 2,000 of the issued and unissued ordinary shares of £1.00 each in the capital of the Company were sub-divided into 100 ordinary shares of £0.01 each and the authorised share capital of the Company was increased from £2,000 to £3,000,000 by the creation of 299,800,000 ordinary shares of £0.01 each.

On 16 May 2007 the Company granted the Share Option, conditional on Admission, to subscribe for up to 100,000 Ordinary Shares at the Placing Price to Mr. van der Heijden, a director of the Company. The options vest annually at periods from the first to the fifth anniversary of Admission. Further details are given in paragraph 4 of Part 8.

On 16 May 2007 the Company has entered into the Dragon Warrant Instrument and the ZAI Warrant Instrument, further details of which are given in paragraph 9 of Part 8. These warrants entitle Dragon and ZAI to subscribe in cash at the Placing Price for such number of Ordinary Shares as is equal to 5% and 1% respectively of Ordinary Shares in issue at Admission during the period commencing on Admission and terminating five years thereafter.



## Section B

The following is the full text of a report on Dragon – Ukrainian Properties & Development plc from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of Dragon – Ukrainian Properties & Development plc.



**BAKER TILLY**

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London WC1B 3ST  
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The Directors  
Dragon – Ukrainian Properties & Development plc  
14 Athol Street  
Douglas  
Isle of Man  
IM1 1JA

25 May 2007

Dear Sirs

### **DRAGON – UKRAINIAN PROPERTIES & DEVELOPMENT PLC (“THE COMPANY”)**

We report on the financial information set out in Section A of Part 6. This financial information has been prepared for inclusion in the admission document dated 25 May 2007 (“Admission Document”) on the basis of the accounting policies set out in note 1 of Section A of Part 6.

This report is required by paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

### **RESPONSIBILITIES**

As described in Part 6 of the Admission Document the directors of the Company (“Directors”) are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the

accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations 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 gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at the date stated and its changes in equity for the period then ended in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.

#### **DECLARATION**

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

#### **Baker Tilly Corporate Finance LLP**

*Regulated by the Institute of Chartered Accountants in England and Wales*

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street London WC1B 3ST.

## PART 7

### TAXATION

The following information, which relates to the UK, Isle of Man, Cyprus, and Ukraine is applicable to the Company and to persons who hold the Shares as investments. It is based upon the legislation and practice currently in force in the UK, Isle of Man, Cyprus and Ukraine. The information does not deal with the position of certain classes of shareholders, such as dealers in securities. The information is not exhaustive and if potential investors are in any doubt about the taxation consequences of acquiring, holding or disposing of the Ordinary Shares they should seek advice from their own professional advisers. Investors should note that tax law and interpretation can change and that, in particular, the levels and basis of, and reliefs from, taxation may change and it may alter the benefits of investment in the Company.

**It is the responsibility of all persons interested in purchasing the Shares to inform themselves as to any income or other tax consequences arising in the jurisdictions in which they are resident or domiciled for tax purposes, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposition of the Shares.**

#### ISLE OF MAN TAXATION

It is the intention of the Directors to conduct the affairs of the Company so that the management and control of the Company is not exercised elsewhere than the Isle of Man and it is not resident in the UK or elsewhere for taxation purposes and so that it does not carry on any trade in the UK or elsewhere (whether or not through a permanent establishment situated there). Accordingly, the Company should not be liable for taxation by the UK or any other jurisdiction on its profits or gains, other than taxation arising on certain income deriving from sources within those jurisdictions.

The Isle of Man Government announced a 0% tax rate for companies with effect from 6 April 2006. As such the Company will have no exposure to Isle of Man income tax.

There are no corporation, capital gains or inheritance taxes payable in the Isle of Man.

No Isle of Man stamp duty or stamp duty reserve tax will be payable on the issue, transfer, conversion or redemption of the Ordinary Shares.

In the event of the death of a sole holder of the Ordinary Shares, an Isle of Man grant of probate or administration may be required in respect of which certain fees will be payable to the Isle of Man Government.

Capital duty in the Isle of Man is calculated at the rate of £15 per £1,000 or part thereof and is payable on incorporation or on any increase in the nominal value of the authorised share capital of the Fund, subject to a minimum of £125 for capital up to £2,000 and to a maximum amount of duty of £5,000.

Holders of the Ordinary Shares will receive dividends without deduction of Isle of Man income tax.

#### **EU Savings Tax Directive (Council Directive 2003/48/EC (the “Directive”))**

The Directive came into force on 1 July 2005. The Isle of Man has entered into bilateral agreements with the EU Member States which effectively require the Isle of Man to comply with the requirements of the Directive, subject to certain other jurisdictions also complying. Under the provisions of the Directive as implemented by the Isle of Man, certain distributions and redemption proceeds paid by collective investment schemes established in the Isle of Man to Shareholders who are individuals resident in the EU, may be subject to withholding tax. However, the Isle of Man Government has determined that only one category of collective investment scheme, namely authorised schemes, will fall within the Directive. The Company is not an authorised scheme and, accordingly, there will be no requirement to deduct withholding tax from any distributions to Shareholders by the Company.

#### UK TAXATION

##### **UK Shareholders**

- (a) Shareholders who are resident in the UK or carrying on a trade in the UK for tax purposes will, depending on their circumstances, be liable to UK income tax or corporation tax on the gross amount of dividends paid by the Company whether directly or by way of reinvestment of income.

- (b) The Company is not at the date of this document an offshore fund for UK taxation purposes. Accordingly Sections 756A to 764 of the Income and Corporation Taxes Act 1988 (the “Taxes Act”) do not apply. Consequently, depending on their circumstances, Shareholders who are resident, or in the case of individuals, ordinarily resident in the UK for taxation purposes may be subject to capital gains tax (or, in the case of a corporate Shareholder, corporation tax on capital gains) in respect of any gain arising on a disposal, including on redemption, of their Ordinary Shares unless the Shareholder is taxed as a dealer in securities, in which case the Directors have been advised that any gain will be treated as income and taxed as such. Subject to a number of conditions being met, for Shareholders who are individuals, taper relief, and for Shareholders within the charge to UK corporation tax, indexation allowance, may reduce a chargeable gain but will not create or increase an allowable loss.
- (c) UK tax law contains a number of anti-avoidance provisions that a UK Shareholders attention is drawn to. In many cases, these may not apply but a Shareholder should consult their professional adviser if in any doubt. These provisions are:
  - (i) Section 13 of the Taxation of Chargeable Gains Act 1992, in certain circumstances, may attribute a portion of capital gains made by a non-resident company to an investor that is resident (or in the case of individuals, ordinarily resident or domiciled) who holds, alone or together with associated persons, more than a 10% interest in the company;
  - (ii) Sections 747-756 of the Taxes Act, in certain circumstances, may attribute a portion of a non-resident company’s profits to UK resident corporate shareholders where the non-resident company is “controlled” (as defined) by UK residents and the UK corporate resident shareholder’s share of any apportionment is at least 25% of the total profits;
  - (iii) Sections 739-745 of the Taxes Act, in certain circumstances, may render an individual who is ordinarily resident in the UK, liable to tax in respect of undistributed profits of a non-resident company; and
  - (iv) The following comments are intended as a guide to the general UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”) position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services, to whom special rules apply. No UK Stamp Duty or SDRT will be payable on the issue of the Placing Shares. UK Stamp Duty (at the rate of 0.5%, rounded up where necessary to the next £5 of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Shares executed within, or in certain cases brought into the UK. Provided that Shares are not registered in any register of the Company kept in the UK any agreement to transfer Shares should not be subject to SDRT.

#### **Non-UK Shareholders**

Shareholders who are not resident or ordinarily resident in the UK (or temporarily non-resident) and do not carry on a trade, profession or vocation through a branch or agent in the UK with which the Ordinary Shares are connected will not normally be liable to UK taxation on capital gains arising on the sale or other disposal of Ordinary Shares. Such Shareholders should consult their own tax advisers concerning their tax liabilities.

#### **OTHER JURISDICTIONS**

At present the Company intends to operate by creating SPVs in jurisdictions with which Ukraine has favourable double taxation agreements.

Investors should note that tax law and interpretation can change and that, in particular, the levels and basis of, and reliefs from, taxation may change and it may alter the benefits of investment in the Company.

One of such jurisdictions is Cyprus and the following information describes certain tax implications concerning that proposed structure. The Company intends to create SPVs in Cyprus which will in turn own shares in SPVs in Ukraine for each project. Several financing SPVs are to be created in Cyprus. These financing SPVs will receive loans from the Company and will be lending funds to the Ukrainian SPVs at a marginally higher rate. Ukrainian SPVs will be partially financed through loans thus reducing their taxable income in Ukraine.

## **CYPRUS TAXATION**

It is the intention of the Directors that the affairs of the Cypriot SPVs will be conducted so that the Cypriot SPVs are considered to be resident in Cyprus.

Dividends received by the Cypriot SPVs from the Ukrainian property investments should be exempt from any tax in Cyprus as they should meet the applicable participation exemption rules. Interest income received by a financing SPV is subject to tax at 10% after the deduction of all expenses wholly and exclusively incurred for the production of this income,

Any gains realised on the disposal of shares in Ukrainian SPVs will not be subject to any taxation in Cyprus. Any dividends paid out by the Cypriot SPVs to the Company will be free from any withholding taxes.

### **The Company**

It is the intention of the Directors that the affairs of the Company will be conducted so that the Company is not considered to be resident in Cyprus. As the Company is not resident in Cyprus it will have no liability to tax in Cyprus.

## **UKRAINE TAXATION**

### **Ukrainian corporate profit tax and limitations on utilization of tax losses**

The Ukrainian corporate profits tax (CPT) rate is currently 25% and the Company is not aware of any proposed changes to this rate.

During the construction phase of individual projects, the Ukrainian SPVs are likely to generate both tax and accounting losses. Under the CPT law, losses incurred after 1 January 2003 may be carried forward indefinitely and applied against income derived in subsequent income years. However, Parliament has passed annual laws that effectively restrict the loss carry forward to a single year.

### **Advance Corporate Tax (“ACT”)**

When Ukrainian SPVs pay dividends to Cypriot SPVs, it will need to pay 25% ACT based on the level of dividends to the Ukrainian tax authorities. This is not a withholding tax and is not reduced by any tax treaty.

The ACT is subsequently available to offset corporate tax liabilities of Ukrainian SPV but cannot be refunded.

### **Tax deductibility of interest payments to financing SPV**

As the financing SPVs are non-resident, the interest rate on the loan interest needs to be at arms length (i.e. market value). The central bank of Ukraine (National Bank of Ukraine “NBU”) imposes maximum limits on interest on loans from non-residents (see below) and these rates are generally considered to be acceptable market rates for tax purposes.

Financing SPVs and Ukrainian SPVs are considered to be related parties for Ukrainian tax purposes. Consequently, interest paid by Ukrainian SPVs to financing SPVs will be subject to specific tax deduction limits. In any year, the maximum deduction for related party interest will be 50% of the taxable income before interest and depreciation. Interest in excess of this amount will be carried forward to future years and are not subject to the loss carry forward limitations mentioned above.

If the Ukrainian structure includes a double holding (one Ukrainian SPV holding 100% shares of the other Ukrainian SPV) then funds to the lower tier company may not be subject to the 50% limit referred to above.

### **Maximum interest rate**

If the loans between financing SPVs and Ukrainian SPVs are standard loan agreements they will need to be registered with the NBU. The maximum interest that the NBU currently accepts for hard currency loans is 11%, provided the loan is for a period exceeding three years, for example, or LIBOR plus 7.5% for variable loans.

### **Depreciation rates for PPE accepted for taxation purposes**

Assets costing more than UAH1,000 and with a useful life exceeding one year are required to be depreciated. Depreciation is determined on a quarterly basis, and is generally computed using the reducing-balance method. For assets constructed after 1 January 2004, taxpayers may adopt any depreciation rate up to the following maximum quarterly rates:

<b>Description of assets</b>	<b>Rate</b>
Group 1: Buildings, constructions, premises	2%
Group 2: Motor transport, spare parts, furniture, household electronic, optical and engineering devices and tools	10%
Group 3: All other assets, except intangible assets and Group 4 assets	6%
Group 4: Computers, devices for automatic processing of information, software, devices for scanning and printing, other information systems, telephone sets (fixed and mobile), microphones and portable radio transmitters	15%

Land may not be depreciated. Intangible assets may be amortized using the straight-line method over the lesser of the asset's useful economic life or ten years.

### **Withholding tax**

Payments of interest and dividends by residents to non-residents are subject to a 15% withholding tax. This tax can be reduced, or eliminated, if the recipient is a resident of a country that has a beneficial tax treaty with Ukraine, and provided the resident receives a certificate of tax residency issued by the relevant country.

Based on the current treaty between Cyprus and Ukraine, in respect of Cypriot SPVs and financing SPVs, there should be no withholding tax on payments of interest or dividends to these entities. Furthermore, Cypriot SPVs should not be taxable in Ukraine on the sale of shares in Ukrainian SPVs. The double tax treaty applied between the two countries is the agreement between Cyprus and the USSR. Ukraine has accepted all the terms of the effective double taxation agreements among which was the agreement between Cyprus and the USSR.

Cyprus and Ukraine have recently renegotiated the double tax treaty but this has not been ratified to date and there is currently no indication as to when the new treaty will come into force. The current draft of this treaty provides for 10% withholding tax on interest, 5% on dividends (in case of dividends from Ukrainian SPVs to Cypriot SPVs) and allows Ukraine to tax the gain on sale of Ukrainian shares held by a Cyprus resident if the principal underlying asset is Ukrainian real estate. The Company and its advisers will continue to monitor the development of the draft treaty.

There are a number of other countries that have entered into favorable treaties with Ukraine, in respect of dividends and/or interest and these will be considered for investments into Ukraine if the final version of the Cyprus treaty is considered to have negative consequences for the Company.

### **Pension fund contribution**

Ukrainian SPVs will need to pay a 1% pension fund contribution when they acquire hard currency to repay loans and interest to financing SPVs, pay dividends to Cypriot SPVs, or for any other purpose. Hard currency (for example, from loans) does not need to be converted into local currency.

### **VAT on construction projects and issues in realizing the VAT reimbursement**

#### **a. *VAT treatment of real estate transactions***

The supply of buildings or premises is subject to 20% VAT. The supply of housing (except the first supply) is exempt from VAT. The supply of land is exempt from VAT, except where the value of the land is included in the value of the real estate according to Ukrainian legislation.

The lease of a building, premises or privately owned land is subject to 20% VAT, regardless of whether the lessee is a resident or non-resident. Security deposits should also be subject to VAT. The lease of state-owned land is exempt from VAT if the lease payments are payable to the state or local authorities.

b. *VAT refund rules and practices*

If input VAT exceeds output VAT for a particular month, the taxpayer is considered to be in a credit position. This is the amount that can be utilised to offset a VAT liability arising in the following months or, subject to specific conditions, be subject to a refund from the State. During the development process (a period of between 12 months to 3 years) there are no taxable revenues and so no output VAT to absorb the substantial input VAT. The level of the VAT is likely to be significant and needs to be financed until the refund is obtained or sufficient output VAT is realised. The ability to obtain a refund or manage the level of the refund is important the envisaged development projects.

According to general VAT rules, if during two consecutive months the taxpayer is in a VAT credit position, excess input VAT can be claimed as a refund. To claim the refund the taxpayer must submit to the tax authorities (together with the VAT return for relevant month) an application for refund and calculation of VAT refund in a prescribed format. The amount of input VAT that can be claimed for the refund is limited to the amount of VAT actually paid to suppliers in the previous reporting month.

The tax authorities should check entitlement to the VAT refund within a maximum of 60 days. If they confirm that the requested amount is correct, they notify the State Treasury and the entity can get refund in cash within the next 10 days. Input VAT not claimed for refund may be carried forward to offset against future VAT liabilities.

Although, the law provides for VAT refunds within a reasonable period, obtaining a VAT refund in practice is problematic and is a major issue faced by real estate developers and investors in Ukraine. The most common strategy has been to accept that a refund is unlikely and the Company has assumed in its working capital models, that VAT incurred during the development phase would be offset against VAT received on rental income over a three to five year period.

**Land tax**

Land tax is assessed annually for the following year and is paid monthly by the owners or users of land. The rate depends on the nature and location of the land. The amounts involved are generally not material. When commercial land has been valued by the State Committee on Land Resources of Ukraine, the annual tax is set at up to 3% of that value. In the absence of a valuation, tax is generally assessed at a fixed rate per square metre. In Kyiv, which has the highest land tax rates in Ukraine, the annual tax is currently UAH 1.95 per square metre.

## PART 8

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY

- 1.1 The Company, whose full name and registered office appears in paragraph 2 of this Part 8, and the Directors, whose names are set out on page 3 of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (each of whom has 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.
- 1.2 The Directors confirm that all information sourced from third parties has been accurately reproduced and that, as far as they are aware and have been able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

#### 2. INCORPORATION

- 2.1 The Company was incorporated on 23 February 2007 in the Isle of Man as a company limited by shares with registered number 119018C and with the name Dragon - Ukrainian Properties & Development plc. The principal legislation under which the Company was formed and now operates is the Isle of Man Companies Acts 1931-2004 (the "Companies Acts"). The Company is domiciled in the Isle of Man.
- 2.2 The Company's registered office is at Top Floor, 14 Athol Street, Douglas, Isle of Man IM1 1JA, telephone number + 44 (0)1624 689 589.
- 2.3 Save for its entry into the material contracts summarised in paragraph 9 of this Part 8 and certain non-material contracts, since its incorporation, the Company has not carried on business nor incurred borrowings.
- 2.4 For statutory purposes under the provisions of the Companies Acts, and in accordance with the Articles, the Company may not proceed to allotment unless a minimum of two shares have been subscribed for.
- 2.5 The business of the Company, and its principal activity, is that of a holding company making investments in the Ukrainian property market.
- 2.6 The Company currently has no subsidiary undertakings within the meaning of section 258 of the Companies Act 1985 of England and Wales.

#### 3. SHARE AND LOAN CAPITAL

- 3.1 The Company was incorporated with an authorised share capital of £2,000 divided into 2,000 shares of £1.00 each.
- 3.2 The following table shows the authorised and issued share capital of the Company as at 25 May 2007 (being the most recent practicable date before publication of this document) and as it will be immediately following Admission:

As at 25 May 2007

Authorised (Ordinary Shares of £0.01 each)		Issued (Ordinary Shares of £0.01 each)	
Nominal Value	Number	Nominal Value	Number
£3,000,000	300,000,000	£2	200

After Admission

Authorised (Ordinary Shares of £0.01 each)		Issued (Ordinary Shares of £0.01 each)	
Nominal Value	Number	Nominal Value	Number
£3,000,000	300,000,000	£1,040,002	104,000,200



- 3.3 The following changes in the authorised and issued share capital of the Company have occurred between its incorporation on 23 February 2007 and 25 May 2007 (being the most recent practicable date before publication of this document):
- (a) on incorporation, 2 ordinary shares of £1.00 each were allotted and issued at a price of £1.00 each; and
  - (b) on 16 May 2007, all 2,000 of the issued and unissued ordinary shares of £1.00 each in the capital of the Company were sub-divided into 100 ordinary shares of £0.01 each and the authorised share capital of the Company was increased from £2,000 to £3,000,000 by the creation of 299,800,000 ordinary shares of £0.01 each.
- 3.4 104,000,000 new Ordinary Shares are to be allotted and issued pursuant to the Placing. The legislation under which the Placing Shares have been created is the Companies Acts and regulations made under the Companies Acts. The Placing Shares are denominated in Sterling. It is expected that they will be allotted on 25 May 2007, conditional only on Admission taking place, and issued on Admission, which is expected to be on 1 June 2007.
- 3.5 The Directors are currently authorised to exercise all powers of the Company to allot Ordinary Shares up to a nominal amount equal to the authorised but unissued share capital of the Company following the resolution passed set out below. Immediately following Admission and the Placing the Directors will be authorised to exercise all powers of the Company to allot Ordinary Shares up to a nominal amount equal to the authorised but unissued share capital of the Company pursuant to that resolution. The Directors do not currently intend to allot further Ordinary Shares pursuant to such authorities save in connection with the Placing.
- 3.6 Written resolutions of the Shareholders were duly passed as to paragraphs (a), (b) and (c) below as ordinary resolutions and as to paragraphs (d) and (e) below as special resolutions on 16 May 2007 resolving, amongst other things, that:
- (a) all 2,000 of the issued and unissued ordinary shares of £1.00 each in the capital of the Company be sub-divided into 100 ordinary shares of £0.01 each;
  - (b) the authorised share capital of the Company be increased from £2,000 to £3,000,000 by the creation of 299,800,000 ordinary shares of £0.01 each; and
  - (c) the Memorandum of Association be altered by the insertion of an amended clause to reflect the sub-division of the share capital.
  - (d) new Articles be adopted; and
  - (e) in revocation of any existing general authority granted to the Directors for the purposes of the Articles of Association, the Directors be generally and unconditionally authorised in accordance with the Articles of Association to exercise all the powers of the Company to allot Ordinary Shares up to an aggregate nominal value equal to the authorised but unissued share capital of the Company, such authority to expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) at the conclusion of the next annual general meeting of the Company provided that the authority shall allow the Company to make an offer or enter into an agreement which would or might require Ordinary Shares to be allotted after this authority expires.
- 3.7 A written resolution of the Shareholders was duly passed on 25 May 2007 resolving that the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 13 of the Companies Act 1992 (Isle of Man)) of Ordinary Shares provided that:
- (a) the maximum number of Ordinary Shares authorised to be acquired is 7,800,015 (representing 7.5% of the issued share capital of the Company immediately following Admission);
  - (b) the minimum price that may be paid for each Ordinary Share is £0.01 (nominal value);
  - (c) the maximum price that may be paid for each Ordinary Share is an amount equal to 110% of the average of the mid-market quotation for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Shares are contracted to be purchased;

- (d) the authority conferred shall expire at the conclusion of the next annual general meeting of the Company, unless such authority is renewed prior to such time; and
- (e) the Company may make a contract to acquire its Ordinary Shares under the authority conferred prior to the expiry of such authority, which will or may be executed wholly or partly after such authority, and may purchase its Ordinary Shares in pursuance of any such contract.

#### 4. DIRECTORS' AND OTHER INTERESTS

- 4.1 The Directors and members of senior management, their functions within the Company and brief biographies are set out in Part 2 of this Admission Document under the section headed "The Board".
- 4.2 Each of the Directors can be contacted at the Company's registered address, Top Floor, 14 Athol Street, Douglas, Isle of Man IM1 1JA.
- 4.3 The interests of the Directors and of persons connected with them in the Ordinary Shares as at 16 May 2007 (the latest practical date prior to the publication of this document) all of which are beneficial, are as follows (in addition to the interests of Mr. van der Heijden pursuant to the Share Option):

Director	Number of Ordinary Shares currently held	Percentage of issued share capital currently held	Number of ordinary shares to be held immediately following Admission	Percentage of enlarged issued share capital to be held immediately following Admission
Mr. Fiala*	200	100%	5,000,200	4.81%

\* Mr. Tomas Fiala is a beneficial owner of Dragon Capital Holdings Limited (Cyprus), the ultimate holding company of the Dragon Capital Group. DRGN Limited, a subsidiary, have an interest in 5,000,000 Placing Shares.

- 4.4 On 16 May 2007 the Company granted options, conditional on Admission, to subscribe for up to 100,000 Ordinary Shares at the Placing Price to Mr. van der Heijden. The options will vest, as to 10,000 options with effect from the first anniversary of Admission, as to a further 15,000 options with effect from the second anniversary of Admission, as to a further 20,000 options with effect from the third anniversary of Admission, as to a further 25,000 options with effect from the fourth anniversary of Admission and, as to the remaining 30,000 options, with effect from the fifth anniversary of Admission.

The options will normally be exercisable by Mr. van der Heijden only whilst he remains a Director and will normally lapse on the termination of his appointment save in the circumstances outlined below.

Earlier exercise is permitted if Mr. van der Heijden dies or leaves his appointment through injury, disability or redundancy. If Mr. van der Heijden terminates his office in other circumstances then the Company may, acting fairly and reasonably, allow the option to be exercised early. Early exercise is also permitted in the event of a takeover, reconstruction or voluntary winding up of the Company.

No rights under an option may be transferred by Mr. van der Heijden to any other person except in the event of Mr. van der Heijden's death when rights will become exercisable by Mr. van der Heijden's personal representative within 12 months of the date of his death.

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital, the number of Ordinary Shares the subject of an option and/or the exercise price may be adjusted in such a manner as the Company considers to be fair and reasonable provided that the exercise price per share (if any) remains at least equal to the nominal value of an Ordinary Share.

- 4.5 Save for the Interests of Mr. Fiala in Dragon Capital Holdings and DCP, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by the Company in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

4.6 There are no outstanding loans granted by the Company to any Director, nor has any guarantee been provided by the Company for their benefit.

4.7 In addition to their directorships in the Company, the Directors hold, or have held within the past five years, the following directorships or partnerships:

Director	Position	Company/Partnership	Position Still Held
Mr. Fiala	Director	Cantik Enterprises Ltd (BVI)	Yes
	Partner	DRGN Limited (Cyprus)	Yes
	Partner	Dragon Capital Holdings	Yes
	Director	Nova Liniya	Yes
	Director	DCP	Yes
	Director	Karlivka Machine-building Plant	Yes
	Director	Retail Group	Yes
	Director	Ukrinbank	Yes
	Director	KP Media	Yes
	Director	JSC GMZ	No
	Director	JSC Lispi	No
Mr. van der Heijden	Director	Beheer Brouwershoff BV (the Netherlands)	Yes
	Director	Corvan Properties Limited	Yes
	Director	De vijftig zakenvrienden van Singer (Business Association of Singer Museum Laren)	Yes
	Director	Stichting Armando Genootschap (Modern art and museum foundation)	Yes
	Director	Stichting Delft Chamber Music Festival	Yes
	Director	Eduard Van Beinum Stichting (Composers donation foundation)	Yes
Mr. Svinhufvud	Director	Malka Oil AB	Yes
	Director	Tetra Pak Ukraine	No

4.8 At the date of this document, none of the Directors has at any time within the last five years:

- (a) had any convictions (whether spent or unspent) in relation to indictable offences or convictions involving fraud or dishonesty;
- (b) been declared bankrupt or been the subject of any individual voluntary arrangement, or been associated with any bankruptcy, receivership or liquidation in his capacity as director or senior manager;
- (c) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);
- (d) been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company;
- (e) been a partner or senior manager in a partnership which, while he was a partner/senior manager or within twelve months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement, or had a receiver appointed over any partnership asset;
- (f) owned any assets which have been subject to receivership or been a partner in a partnership subject to a receivership where he was a partner at a time or within the twelve months preceding such event; or
- (g) has been a director or senior manager of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was an executive director or senior manager of that company or within twelve months after his ceasing to be an executive director or senior manager.

- 4.9 Save as set out in this Part 8 there are:
- (a) no potential conflicts of interest between any duties to the Company, of the Directors and their private interests and/or other duties; and
  - (b) no arrangements or understandings with major shareholders, members, suppliers or others, pursuant to which any Director was selected.
- 4.10 No Director (nor any member of a Director's family) has had a related financial product (as described in the AIM Rules for Companies) referenced to Shares.
- 4.11 There is no Directors' shareholding qualification under the Articles or otherwise.
- 4.12 There are no contracts entered into by the Company in which the Directors have a material interest other than the fact that Tomas Fiala is the managing director of Dragon Capital and a member of the senior management team of Dragon Capital Partners and a significant shareholder in Dragon Capital Holdings and therefore has a material interest in the Management Agreement summarised in paragraph 9 of this Part 8.
- 4.13 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.

## 5. INTERESTS OF MAJOR SHAREHOLDERS

- 5.1 So far as the Company is aware, the interests, direct or indirect, of persons in 3% or more of the Company's issued share capital, as they are expected to be immediately prior to Admission and immediately following Admission are as follows.

Shareholder	Immediately prior to Admission		Immediately following Admission	
	Number of Ordinary Shares owned	As a % of issued share capital	Number of Ordinary Shares owned	As a % of issued share capital
Ridgeway Nominees Limited*	100	50.00	100	–
Ridgeway Corporate Nominees Limited*	100	50.00	100	–
Spinnaker Capital Limited	–	–	11,000,000	10.62
Juilius Baer International	–	–	10,350,000	9.99
DRGN Limited (Dragon Capital) – Custody clients	–	–	10,050,000	9.70
ELQ Investors Limited	–	–	10,000,000	9.65
Cundill Recovery	–	–	9,325,000	9.00
Morgan Stanley Principal Strategies	–	–	9,000,000	8.69
Finisterre Global Opportunity Fund	–	–	7,500,000	7.24
Polar Capital Elbrus Fund	–	–	6,000,000	5.79
DRGN Limited	–	–	5,000,000	4.85
PMA European Credit Opportunities Master Fund Limited	–	–	3,750,000	3.62
Renaissance Capital	–	–	3,500,000	3.38

\* The shares are held on behalf of DRGN Limited.

- 5.2 The Shareholders listed in the above table do not have any voting rights that differ from any other shareholder.

## 6. DIRECTORS' CONTRACTS, EMPLOYMENT AGREEMENTS AND EMOLUMENTS

- 6.1 The Directors have each entered into a letter of appointment governed by English Law. The terms of appointment for each Director are set out below.

<i>Name</i>	<b>Aloysius Wilhelmus Johannes van der Heijden</b>
<i>Position</i>	Non-executive Chairman
<i>Annual Fee</i>	\$75,000. The Company has agreed to reimburse Mr van der Heijden for reasonably incurred expenses in the course of his duties to the Company.
<i>Date of appointment</i>	10 April 2007
<i>Notice period</i>	The Director or Company may terminate on 3 month's written notice.

<i>Name</i>	<b>Fredrik Svinhufvud</b>
<i>Position</i>	Non-executive Director
<i>Annual Fee</i>	\$50,000. The Company has agreed to reimburse Mr Svinhufvud for reasonably incurred expenses in the course of his duties to the Company.
<i>Date of appointment</i>	10 April 2007
<i>Notice Period</i>	The Director or Company may terminate on 3 month's written notice.

<i>Name</i>	<b>Tomas Fiala</b>
<i>Position</i>	Non-executive Director
<i>Annual Fee</i>	No fee. The Company has, however, agreed to reimburse Mr Fiala for reasonably incurred expenses in the course of his duties to the Company.
<i>Date of appointment</i>	26 February 2007
<i>Notice period</i>	The Director or Company may terminate on 3 month's written notice.

- 6.2 There is no limitation on the aggregate amount of remuneration payable to the Directors under the Articles.
- 6.3 It is estimated that the aggregate emoluments (including benefits in kind and pension contributions (of which none is to be made)) of the Directors for the period ending 31 December 2007 will amount to no more than \$105,000.

## 7. MEMORANDUM AND ARTICLES OF ASSOCIATION

- 7.1 The Companies Act 1986 (the "1986 Act") of the Isle of Man removed the need for the objects of a company incorporated in the Isle of Man after 1 June 1988 to be set out in the Memorandum of Association of the company, by providing that the company has, subject to the 1986 Act, the capacity and the rights, powers and privileges of an individual. As the Company is a company which was incorporated in the Isle of Man after 1 June 1988, the objects of the Company are not set out in its Memorandum of Association but, pursuant to the 1986 Act, the Company has the capacity and, subject to the 1986 Act, the rights, powers and privileges of an individual.
- 7.2 The Memorandum of Association of the Company does not set out any restrictions on the exercise of the rights, powers and privileges of the Company.
- 7.3 The Articles of the Company contain provisions, *inter alia*, to the following effect.
- 7.4 The following is a description of the rights attaching to the Ordinary Shares based on the Articles which were adopted by the Company on 16 May 2007, by way of written special resolution. The description does not purport to be complete and is qualified in its entirety by the full terms of the Articles.

(a) *Voting rights*

Subject to the provisions of the Companies Acts and to any special terms as to voting on which any shares may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall on a show of hands have one vote and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative shall have one vote for each share of which he is the holder.

(b) *Variation of rights*

Subject to the provisions of the Companies Acts, if at any time the share capital of the Company is divided into shares of different classes any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be, or be about to be, in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as provided in the Articles.

(c) *Alteration of capital*

The Company in general meeting may from time to time by ordinary resolution:

- (i) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (ii) consolidate and/or divide, re-designate or convert all or any of its share capital (whether issued or not) into shares of larger or smaller nominal amount, or into different classes of shares, than its existing shares;
- (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (iv) subject to the provisions of the Companies Acts, sub-divide its shares or any of them into shares of smaller nominal value than is fixed by the memorandum of association and may by such resolution determine that as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares but so that the proportion between the amount paid up and the amount (if any) not paid up on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

Subject to the provisions of the Companies Acts and to any rights for the time being attached to any shares, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any undistributable reserve in any manner.

Subject to the provisions of the Companies Acts and to any rights for the time being attached to any shares, the Company may enter into any contract for the purchase of any of its own shares of any class (including any redeemable shares) and any contract under which it may, subject to any conditions, become entitled or obliged to purchase all or any of such shares. Any shares to be so purchased may be selected in any manner whatsoever provided that if at the relevant date proposed for approval of the proposed purchase there shall be in issue any shares of a class entitling the holders to convert into equity share capital of the Company then no such purchase shall take place unless it has been sanctioned by a special resolution passed at a separate general meeting (or meetings if there is more than one class) of the holders of such class of convertible shares.

(d) *Transfer of Shares*

Each Shareholder may transfer all or any of his shares, in the case of certificated shares, by instrument of transfer in writing in any usual form or in any form approved by the Board or, in the case of uncertificated shares, without a written instrument in accordance with the Uncertificated Regulations. Any written instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Company's register of members as the holder of the share.

The Board may refuse to register any transfer of a certificated share unless:

- (i) it is in respect of a share which is fully paid up;
- (ii) it is in respect of a share on which the Company has no lien;
- (iii) it is in respect of only one class of shares;
- (iv) it is in favour of a single transferee or not more than four joint transferees;
- (v) it is duly stamped (if so required); and
- (vi) it is delivered for registration to the registered office, or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer where a certificate has not been required to be issued) by the certificate for the shares to which it relates and/or such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so,

provided that such discretion may not be exercised in such a way as to prevent dealings in such shares from taking place on an open and proper basis.

The registration of transfers of shares or of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Board may from time to time determine (subject to the Uncertificated Regulations in the case of any shares of a class which is a Participating Security being a share or class of shares or a renounceable right of allotment of a share, title to which is permitted to be transferred by means of an Uncertificated System in accordance with the Uncertificated Regulations). Notice of closure of the register of members of the Company shall be given in accordance with the requirements of the Acts.

The Board shall register a transfer of title to any uncertificated share or the renunciation or transfer of any renounceable right of allotment of a share which is a Participating Security held in uncertificated form in accordance with the Uncertificated Regulations, except that the Board may refuse (subject to any relevant requirements applicable to the recognised investment exchange(s) to which the shares of the Company are admitted) to register any such transfer or renunciation which is in favour of more than four persons jointly or in any other circumstance permitted by the Uncertificated Regulations. The Directors have the power to require the sale or transfer or refuse the registration of Ordinary Shares if the sale or transfer of such shares is made other than in compliance with certain US restrictions.

(e) *Dividends*

Subject to the provisions of the Articles, the Company may, by ordinary resolution, declare that dividends be paid to Shareholders, out of profits available for distribution in accordance with Isle of Man law, according to their respective rights and interests in the profits of the Company available for distribution. However, no dividend shall exceed the amount recommended by the Board.

The Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution in accordance with Isle of Man law and the position of the Company. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividend as well as on shares conferring preferential rights unless at the time of payment any preferential dividend is in arrears. Provided that the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferential rights for any loss that they may suffer in consequence of the declaration or by the lawful payment of any interim dividend on any shares ranking after those with preferential rights.

(f) *Uncashed and unclaimed dividends*

If cheques, warrants or orders for dividends or other sums payable in respect of a share sent by the Company to the person entitled thereto by post are returned to the Company undelivered or left uncashed on two consecutive occasions the Company shall not be obliged

to send any further dividends or other moneys payable in respect of that share due to that person until he notifies the Company of an address to be used for the purpose. All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having become due for payment shall (if the Board so resolves) be forfeited and shall revert to the Company.

(g) *Disclosure of substantial interests in shares*

Every person who, to his knowledge becomes interested, or becomes aware that he is or has become interested, in 3% or more of the shares for the time being in issue of any relevant class of shares of the Company, shall be under obligation to give to the Company notice in writing of that fact, specifying:

- (i) the amount of shares of the relevant class in which he was to his knowledge interested immediately after the obligation arose; and
- (ii) so far as known to him, the identity and address of each registered holder of those shares and the amount of shares then held by each such holder.

Every person who ceases to be interested, or becomes aware that he has ceased to be interested, in 3% or more of the shares for the time being in issue of any relevant class of shares of the Company, shall be under an obligation to give to the Company notice in writing of that fact.

Where:

- (i) a person is to his knowledge, interested in 3% or more of the shares for the time being in issue of any relevant class of shares of the Company; and
- (ii) there occurs to his knowledge, or he becomes aware that there has occurred, a change in his percentage interest in the shares of that class for the time being in issue;

that person shall be under an obligation to give to the Company notice in writing of the change, specifying:

- (i) the amount of shares of the relevant class in which he was to his knowledge interested immediately after the obligation arose; and
- (ii) so far as known to him, the identity and address of each registered holder of such shares and the amount of shares then held by each such holder.

An obligation to give a notice to the Company (as specified in this paragraph (g)) shall be fulfilled before the end of the second working day after the day on which it arises and is a continuing obligation.

(h) *Register of Substantial Interests*

The Directors shall keep a register (the Register of Substantial Interests) and shall procure that information covering substantial interests is within three working days thereafter inscribed in the Register of Substantial Interests against that person's name received.

The Register of Substantial Interests shall be kept at the registered office.

(i) *Suspension of rights*

The Board may at any time serve a notice (Information Notice) upon a Shareholder requiring the member to disclose to the Board in writing, within the time period specified, information relating to any beneficial interest of any third party or any other interest of any kind whatsoever which a third party may have in relation to any or all shares registered in the Shareholder's name. If a Shareholder has been issued with an Information Notice and has failed in relation to any shares the subject of the Information Notice (relevant shares) to furnish any information required by such notice within the time period specified therein, then the Board may at any time following fourteen days from the expiry of the date on which the information required to be furnished pursuant to the relevant Information Notice is due to



be received by the Board, serve on the relevant holder a notice (in this paragraph called a disenfranchisement notice) whereupon the following sanctions shall apply:

(i) *Voting*

the Shareholder shall not with effect from the service of the disenfranchisement notice be entitled in respect of the relevant shares to be present or to vote (either in person or by representative or proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares of the Company or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and

(ii) *Dividends and transfers*

where the relevant shares represent at least 0.25% in nominal value of their class:

- (1) any dividend or other money payable in respect of the relevant shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect pursuant to the Articles to receive shares instead of that dividend; and
- (2) subject in the case of uncertificated shares to the relevant Uncertificated Regulations, no transfer, other than an approved transfer, of any relevant shares held by the Shareholder shall be registered unless the Shareholder is not himself in default as regards supplying the information required pursuant to the relevant Information Notice and the Shareholder proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

(j) *Minority Shareholder Protection*

(i) A person must not, in circumstances in which that person would thereby effect, or purport to effect, a prohibited acquisition:

- (1) acting by himself or with persons determined by the Board to be acting in concert seek to acquire shares (whether by a series of transactions over a period of time or otherwise), which carry 30% or more of the voting rights attributable to the shares in the Company; or
- (2) acting by himself or with persons determined by the Board to be acting in concert, hold not less than 30% but not more than 50% of the voting rights attributable to the shares in the Company and seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights,

except as a result of a permitted acquisition, which shall be the case if:

- (3) the Board consents to the acquisition (even if, in the absence of such consent, the acquisition would be a prohibited acquisition);
- (4) the acquisition is made in circumstances in which the Takeover Code, if it applied to the Company, would require an offer to be made in accordance with Rule 9 of the Takeover Code as if it so applied, and such offer is made and not subsequently withdrawn;
- (5) the acquisition arises from the repayment of a stock borrowing arrangement (on arm's length commercial terms); or
- (6) as a consequence of the Company redeeming or purchasing its own shares, there is a resulting increase in the percentage of the voting rights attributable to the shares held by a person or persons determined by the Board to be acting in concert and such an increase would constitute a breach of the limits set out in paragraph (i) above.

- (ii) An acquisition is a Prohibited Acquisition if Rules 4, 5, 6 or 8 of the Takeover Code would, in whole or in part, apply to the acquisition if the Company were subject to the Takeover Code and the acquisition were made (or if not yet made, would if and when made be) in breach of or would otherwise not comply with rules 4, 5, 6 or 8 of the Takeover Code.
- (k) *Power of Board to sell Excess Shares and implement the Takeover Code*
- (i) Where the Board has reason to believe that any acquisition has taken place in contravention of paragraph (j) above the Board may do all or any of the following:
- (1) require any member or persons appearing or purporting to be interested in any shares in the Company to provide such information as the Board considers appropriate to determine any of the matters set out in this paragraph, including without limitation the issue of an Information Notice;
  - (2) have regard to such public filings as it considers appropriate to determine any of the matters under paragraph (j);
  - (3) make such determinations under paragraph (j) and this paragraph as it thinks fit, either after calling for submissions from affected Shareholders or other persons under (1) above or without calling for such submissions;
  - (4) determine that some or all of the shares held by such Shareholders which carry more than 30% of the voting rights attributable to the shares in the Company (Excess Shares) must be sold;
  - (5) determine that some or all of the Excess Shares will not carry any voting right or right to any dividends or other distributions from a particular time for a definite or indefinite period; or
  - (6) take such other action as it thinks fit for the purposes of paragraph (j) and this paragraph (k), including:
    - prescribing rules (not inconsistent with the Articles);
    - setting deadlines for the provision of information;
    - drawing adverse inferences where information requested is not provided;
    - making determinations or interim determinations;
    - executing documents on behalf of a Shareholder;
    - converting any Excess Shares held in uncertificated form into certificated form or *vice versa*;
    - paying costs and expenses out of proceeds of sale; and
    - changing any decision or determination or rule previously made.
- (ii) The Board has full authority to determine the application of paragraph (j) and this paragraph (k), including as to the deemed application of the whole or any part of the Takeover Code. The Board shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with paragraph (j) or this paragraph (k).
- (l) *Winding-up*
- The Shareholders of the Company may at any time pass a special resolution (75% majority required) at a general meeting requiring the Company to be wound up voluntarily.
- (m) *Return of capital*
- If the Company is wound up, the surplus assets remaining after payment of all creditors are to be divided among the Shareholders in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that as nearly as may be the losses are borne by the Shareholders in proportion

to the capital paid up at the commencement of the winding up on the shares held by them respectively, subject to the rights attached to any shares which may be issued on special terms or conditions.

If the Company is wound up the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the Shareholders in specie the whole or any part of the assets of the Company and may for that purpose value any assets and determine how the division shall be carried out as between the Shareholders or different classes of Shareholders. Any such division may be otherwise than in accordance with the existing rights of the Shareholders but if any division is resolved otherwise than in accordance with such rights the Shareholders shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to Section 222 of the Isle of Man Companies Act 1931. The liquidator may with the like sanction vest the whole or any part of the whole of the assets in trustees on such trusts for the benefit of the Shareholders as he with the like sanction shall determine but no Shareholder shall be compelled to accept any assets on which there is a liability.

A special resolution sanctioning a transfer or sale to another company duly passed pursuant to Section 222 of the Isle of Man Companies Act 1931 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the Shareholders otherwise than in accordance with their existing rights and any such determination shall be binding on all the Shareholders, subject to the right of dissent and consequential rights conferred by the said section.

(n) *Share Issue and Pre-emption rights*

Subject to the provisions of the Companies Acts, the Articles and any resolution of the Company, the Board may offer, allot (with or without conferring a right of renunciation), grant options over or otherwise deal with or dispose of any unissued shares (whether forming part of the original or any increased capital) to such persons, at such times and generally on such terms as the Board may decide but no share may be issued at a discount.

There are no statutory pre-emption rights under Isle of Man law.

(o) *Borrowing powers*

Subject to the other provisions of the Articles and the Companies Acts, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(p) *Directors*

The Articles provide that, unless and until otherwise determined by the Company by ordinary resolution the number of Directors (other than any alternate Directors) shall be not less than two or more than ten. A majority of the Directors shall at all times be resident outside the United Kingdom.

Subject to the provisions of the Articles, the Company may by ordinary resolution appoint a person who is willing to act to be a Director, either to fill a vacancy, or as an addition to the existing Board, and may also determine the rotation in which any additional Directors are to retire, but the total number of Directors shall not exceed any maximum number fixed in accordance with the Articles.

No person shall be disqualified from being appointed or re-appointed a Director, and no Director shall be required to vacate that office, by reason only of the fact that he has attained the age of 70 years or any other age nor shall it be necessary by reason of his age to give special notice of any resolution.

At each annual general meeting, one third of the Directors shall retire from office. A retiring Director shall be eligible for re-election at such annual general meeting.

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine. Such sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or in default of such determination, equally (except that in such event any Director holding office for less than the whole of the relevant period in respect of which the fees are paid shall only rank in such division in proportion to the time during such period for which he holds office). Any fees payable pursuant to such provision shall be distinct from any salary, remuneration or other amounts payable to a Director pursuant to any other provisions of the Articles and shall accrue from day to day.

The salary or remuneration of any Director appointed to hold any employment or executive office in accordance with the provisions of the Articles may be either a fixed sum of money or may altogether or in part be governed by business done or profits made or otherwise determined by the Board and may be in addition to or in lieu of any fee payable to him for his services as Director pursuant to the Articles.

Each Director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as Director, including any expenses incurred in attending meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company.

(q) *Directors' interests and indemnity*

A Director who to his knowledge is in any way (directly or indirectly) interested in any contract arrangement, transaction or proposal with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

Except as provided below, a Director shall not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the Company is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Company) or a duty which conflicts with the interests of the Company unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs in which case he shall be entitled to vote and be counted in the quorum:

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (iii) where the Company or any of its subsidiaries is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (iv) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Isle of Man Companies Act 1985) representing 1% or more of either any class of the equity share capital, or the voting rights, in such company;
- (v) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

- (vi) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

An interest of a person who is, for any purpose of the Companies Acts (excluding any such modification thereof not in force when the Articles became binding on the Company), connected with a Director shall be treated as an interest of the Director and, in relation to an alternate Director, an interest of his appointor shall be treated as an interest of the alternate Director without prejudice to any interest which the alternate Director otherwise has.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of 2 or more Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Director. In such case each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

Subject to the Acts, but without prejudice to any indemnity to which he may otherwise be entitled, every Director, alternate Director, secretary or other officer of the Company (other than an auditor) shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution of his duties.

(r) *General Meetings*

Subject to the provisions of the Companies Acts, annual general meetings shall be held at such time and place as the Board may determine. All general meetings other than annual general meetings, shall be called extraordinary general meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. At any meeting convened on such requisition (or any meeting requisitioned pursuant to section 113 of the Companies Act 1931) no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not within the Isle of Man sufficient members of the Board to convene a general meeting, any Director or any member of the Company may call a general meeting.

An annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution appointing a person as a Director or a resolution of which special notice has been given to the Company shall be convened by not less than 21 clear days' notice in writing. Other extraordinary general meetings shall be convened by not less than 14 clear days' notice in writing.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business but the absence of a quorum shall not preclude the choice or appointment of a Chairman, which shall not be treated as part of the business of the meeting. Subject to the provisions of the Articles, two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, shall be a quorum).

If, within five minutes (or such longer interval not exceeding 30 minutes as the Chairman in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting, a quorum is not present or if, during a meeting, such a quorum ceases to be present, the meeting, if convened on the requisition of Shareholders, shall be dissolved. In any other case, the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other day and at such time and place as the Chairman (or, in default, the Board) may determine, being not less than 14 nor more than 28 days thereafter. If, at such adjourned meeting, a quorum is not present within 15 minutes from the time appointed for holding the meeting, one member present in person or by proxy or (being a corporation) by a duly

authorised representative shall be a quorum. If no such quorum is present or if, during the adjourned meeting, a quorum ceases to be present, the adjourned meeting shall be dissolved. The Company shall give at least seven clear days' notice of any meeting adjourned through lack of quorum (where such meeting is adjourned to a day being not less than 14 nor more than 28 days thereafter).

The Board may resolve to enable persons entitled to attend a general meeting to do so by simultaneous attendance and participation at a satellite meeting place anywhere in the world. The Shareholders present in person or by proxy at satellite meeting places shall be counted in the quorum for, and entitled to vote at, the general meeting in question, and that meeting shall be duly constituted and its proceedings valid if the chairman of the general meeting is satisfied that adequate facilities are available throughout the general meeting to ensure that Shareholders attending at all the meeting places are able to:

- (i) participate in the business for which the meeting has been convened;
- (ii) hear and see all persons who speak (whether by the use of microphones, loudspeakers, audio-visual communications equipment or otherwise) in the principal meeting place and any satellite meeting place; and
- (iii) be heard and seen by all other persons so present in the same way.

The Chairman of the general meeting shall be present at, and the meeting shall be deemed to take place at, the principal meeting place.

If, after the sending of notice of a general meeting but before the meeting is held or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Board decides that it is impractical or unreasonable, for a reason beyond its control, to hold the meeting at the declared place and/or time, it may change the place and/or postpone the time at which the meeting is to be held. If such a decision is made, the Board may then change the place and/or postpone the time again if it decides that it is reasonable to do so. In either case:

- (iv) no new notice of the meeting need be sent, but the Board shall, if practicable, advertise the date, time and place of the meeting in at least two newspapers having a national circulation and shall make arrangements for notices of the change of place and/or postponement to appear at the original place and/or the original time; and
- (v) a proxy appointment in relation to the meeting may, if by means of an instrument, be delivered to the office or to such other place as may be specified by or on behalf of the Company or, if contained in an electronic communication, be received at the address (if any) specified by or on behalf of the Company, at any time not less than 48 hours before any postponed time appointed for holding this meeting.

#### *Register of members*

The Company shall keep the register at its registered office, in accordance with the Isle of Man Acts.

### **8. OVERSEAS INVESTORS**

No action has been taken by the Company or on its behalf to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken including the United States, Canada, Australia or Japan. This document may not therefore be used for the purpose of, and does not constitute, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Accordingly, no person receiving a copy of this document in any territory other than the UK, may treat the same as constituting an offer or invitation to him to acquire, subscribe for or purchase Shares nor should he in any event acquire, subscribe for or purchase Shares unless such an invitation, acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory. Any person outside the United Kingdom wishing to acquire, subscribe for or purchase Shares should satisfy himself that, in doing so, he complies with the laws of any relevant territory, and that he obtains any requisite governmental or other consents and observes any other applicable formalities.

The Company has not been and will not be registered with the US Securities Exchange Commission under the US Investment Companies Act of 1940, as amended (the “1940 Act”). In addition, the Shares have not been and will not be are not registered under the US Securities Act of 1933, as amended (the “1933 Act”) or any US State Securities laws. Therefore, the Shares may not be publicly offered or sold in the United States or directly or indirectly to or for the benefit of a “US Person” as declined herein. A “US Person” as used herein means a “US Person” as defined under Regulation S of the 1933 Act, as well as the following: (1) a citizen or resident of the United States; (2) a partnership or corporation organised or incorporated under the laws of any state, territory or possession of the United States; (3) any estate or trust, other than an estate or trust which is not subject to US income tax on its income derived from sources outside the US and not effectively connected with the conduct of a trade or business within the United States; or (4) any estate or trust which has a US person as its executor, administrator, or trustee. Shares will be offered or sold within the United States only to Qualified Purchasers, as defined under the 1940 Act.

Further, Shares may be offered or sold within the United States only pursuant to Regulation D of the 1993 Act and only to purchasers who constitute (i) an “accredited investor”, as such term is defined in Rule 501(A) of Regulation D, and (ii) a “qualified purchaser”, as such term is defined in Section 2(A)(51) of the 1940 Act; provided, further, that any prospective purchaser of Shares which is a US Person may be subject to substantial re-sale restrictions relating to any Shares purchased pursuant to Regulation D and should, therefore, consult its own legal counsel as to the extent and applicability of such re-sale restrictions under the US Security laws.

The Company’s Articles contain provisions designed to restrict the holding of Shares by persons, including US Persons, where in the opinion of the Directors such a holding could cause or be likely to cause the Company some legal, regulatory, pecuniary, tax or material administrative disadvantage. No ERISA Plan Investor may acquire Shares without the Company’s prior written consent. Shares held by ERISA Plan Investors are subject to provisions requiring a compulsory transfer as set out in the Articles.

The Ordinary Shares have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any US state securities commission or any other regulatory authority nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this document. Any representation to the contrary is unlawful. The Ordinary Shares will be offered and sold outside the United States pursuant to the requirements of Regulation S under the Securities Act (“Regulation S”). The Ordinary Shares cannot be offered, resold, pledged or otherwise transferred in the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S).

Pursuant to the IOM Companies Act 1931, an offer of Ordinary Shares described in this document may not be made to the public (whether in the Isle of Man or elsewhere) except in terms of a prospectus complying with the applicable requirements of that Act and filed with the Companies Registration Division of the Isle of Man Financial Supervision Commission (the “IOM Prospectus Requirements”).

However, pursuant to the IOM Companies (Private Placements) (Prospectus Exemptions) Regulations 2000, the IOM Prospectus Requirements do not apply to a private placement, being the issue of a prospectus by or on behalf of a company, or by or on behalf of any person who is or has been engaged or interested in the formation of a company to:

- persons whose ordinary activities involve them in acquiring, holding, managing or disposing of shares in debentures (as principal or agent) for the purposes of their businesses; or
- persons who it is reasonable to expect will acquire, hold manage or dispose of shares or debentures (as principal or agent) for the purposes of their businesses; or
- a restricted circle of persons whom the issuer of the prospectus reasonably believes to be sufficiently knowledgeable to understand the risks involved in accepting the offer in the prospectus; or
- a restricted circle of persons numbering no more than fifty whom it is reasonable to believe will acquire any shares or debentures which are the subject of the offer in the prospectus for investment purposes and not with a view to their imminent resale (a “Private Placement”).

This document has not been registered or filed as a prospectus with any governmental or other authority in the Isle of Man in reliance on the offer of Ordinary Shares described herein constituting a Private

Placement. Accordingly, this document may only be issued by or on behalf of the Company, or on behalf of any person who is or has been engaged or interested in the formation of the Company, where such issue constitutes a Private Placement.

This document and the issue of the Ordinary Shares have not been approved or passed upon by the Isle of Man Financial Supervision Commission or any other governmental or regulatory authority in or of the Isle of Man.

### **Russia**

This document has not been and will not be registered as a prospectus with the Russian Federal Service for the Financial Market or any other state bodies that may from time to time be in charge of such registration. This document does not constitute a public offer or advertisement for the Ordinary Shares in Russia and is not an offer to sell to an unlimited group of persons, or a public invitation to make offers to purchase, the Ordinary Shares in Russia. Accordingly, each of ZAI and the Company has agreed that they will not place, trade, offer, sell or otherwise transfer Ordinary Shares as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or located in Russia unless to the extent otherwise permitted by Russian law. The Ordinary Shares may not be placed, traded, offered, sold or otherwise transferred as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) that are resident, incorporated, established or located in Russia except in compliance with Russian law.

### **Denmark**

This Admission Document has not been filed with or approved by the Danish Securities Council or any other regulatory authority in the Kingdom of Denmark. The Placing Shares may not be offered or sold, directly or indirectly, in Denmark, except in compliance with Danish Executive Order No. 166 of 13 March 2003 on the First Public Offer of Certain Securities issued under Chapter 12 of the Danish Act on Trading in Securities.

### **Germany**

This Admission Document is not a Securities Selling Prospectus (Verkaufsprospekt) within the meaning of the German Securities Prospectus Act (Verkaufsprospektgesetz) of 9 September 1998, as amended, and has not been filed with and approved by the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) or any other German governmental authority, and the Placing Shares may not be offered or sold and copies of this Admission Document or any document relating to the Placing Shares may not be distributed, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act.

### **The Netherlands**

The Placing Shares may not be offered, sold, transferred or delivered in or from within The Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, and neither this Admission Document nor any other document in respect of the Placing may be distributed or circulated in The Netherlands, other than to individuals who or legal entities which trade or invest in securities in the conduct of their profession or business within the meaning of The Netherlands Securities Transactions Supervision Act of 1995 (Vrijstellingsregeling wet foezicht effectenverkeer 1995) and its implementing regulations (which includes banks, brokers, pension funds, insurance companies, securities institutions, investment institutions and other institutional investors, including, among others, treasuries of large enterprises, who or which are regularly active in the financial markets in a professional manner).

### **Sweden**

This Admission Document is not a prospectus and has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (lagen (1991:980) om handel med finansiella instrument) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority (Finansinspektionen) nor any other Swedish public body has examined, approved or registered this Admission Document.



## Switzerland

This Admission Document does not constitute a prospectus within the meaning of Article 652a and Article 1156 of the Swiss Code of Obligation (Schweizerisches Obligationenrecht); and none of the securities to which this document relates have been or will be approved by any Swiss Regulatory authority. The securities to which this Admission Document relates may not be offered or sold, and will not be offered or sold, to any investors in Switzerland otherwise than in accordance with Swiss law.

## Finland

In Finland, this document may only be distributed to a qualified investor (kokenut sijoittaja) as defined in the Finnish Securities Markets Act (495/1989, as amended) and only in reliance on the exemptions relating to qualified investors provided therein. This document may not, under any circumstances, be used for the purpose of, or in connection with, any offer or solicitation relating to non-professional or non-qualified investors in Finland, and this document shall not be delivered to such person. This document has been prepared for private information purposes. It may not be used for, and shall not be deemed to be, a public offering of the Ordinary Shares. It may not be used for, and shall not be deemed to be, marketing, issuance or offering of securities to the public in Finland and, therefore, certain provisions of the Finnish Securities Market Act e.g. provisions on the obligation to publish a prospectus, are not applicable. The Finnish Financial Supervision Authority (Rahoitustarkastus) has not authorised any offering of the Ordinary Shares; accordingly, the Ordinary Shares may not be offered or sold in Finland or to Finnish residents except as permitted by Finnish law. This document is strictly for private use by its holder and may not be passed on to third parties or otherwise distributed publicly. This document shall not, in addition to everything else stated and excluded herein, be considered to constitute an offer under the Finnish Act on Contracts (228/1929, as amended).

## 9. MATERIAL CONTRACTS

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company within the two years immediately preceding the date of this document or which are expected to be entered into prior to Admission and which are, or may be, material or which have been entered into at any time by the Company and which contain any provision under which the Company has any obligation or entitlement which is, or maybe, material to the Company as at the date of this document:

### 9.1 *Placing Agreement*

On 16 May 2007 the Company, the Directors and DCP entered into the Placing Agreement with ZAI, pursuant to which ZAI has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing Agreement is conditional, inter alia, on the issued and to be issued Ordinary Shares being admitted to AIM by no later than 1 June 2007 (or such other date as may be agreed between the parties not being later than 1 July 2007).

In consideration of its services in connection with Admission and the Placing, the Company will pay ZAI certain fees and commissions in accordance with the terms of ZAI's engagement letter. These include a corporate finance fee of £75,000 and a commission of 1% on the aggregate value of the Placing Shares at the Placing Price. ZAI has agreed to pay to DRGN Limited from that commission an amount equal to 1% of the aggregate value at the Placing Price of the Placing Shares subscribed by investors introduced by DRGN Limited. A bonus of £75,000 is also payable by the Company to ZAI, conditionally, on the amount raised pursuant to the Placing being at least \$65 million. In addition, ZAI has been granted warrants pursuant to the agreement described in paragraph 9.7 below.

The Placing Agreement contains warranties given by the Company, the Directors and DCP as to the accuracy of the information contained in this document and other matters relating to the Company and its business. The liability of the Directors under these warranties is limited in time and amount. In addition, the Company and the Directors have given indemnities to ZAI in respect of certain matters. ZAI is entitled to terminate the Placing Agreement prior to Admission, principally in the event of a material breach of the Placing Agreement or of any of the warranties contained in it or if an event of *force majeure* arises.

## 9.2 *Nominated Adviser Agreement*

The Company and ZAI have entered into a nominated adviser agreement dated 2 March 2007 under which ZAI has accepted its appointment as the Company's nominated adviser for the purposes of the AIM Rules. The Company will pay ZAI a yearly fee of £40,000 in addition to the reasonable costs and expenses incurred by ZAI in carrying out its obligations as nominated adviser to the Company. The agreement contains certain undertakings, confirmation and indemnities given by the Company to ZAI. The appointment is for a period of 1 year and may be terminated thereafter by either party on 3 months notice.

## 9.3 *Broker Agreement*

The Company and ZAI have entered into a broker agreement dated 2 March 2007 under which ZAI has accepted its appointment as the Company's broker for the purposes of the AIM Rules. The Company will pay ZAI a yearly fee of £20,000 in addition to the reasonable costs and expenses incurred by ZAI in carrying out its obligations as broker to the Company. The agreement contains certain undertakings, confirmation and indemnities given by the Company to ZAI. The appointment will be for a period of 1 year and may be terminated thereafter by either party on three months notice.

## 9.4 *Management Agreement*

The Company has entered into the Management Agreement dated 16 May 2007 between the Company and DCP pursuant to which the Manager has agreed to provide advisory, management and monitoring services to the Company.

In consideration for its services thereunder, the Manager is entitled to be paid an annual Management Fee of 1.5% of the Gross Asset Value ("GAV") of the Company at the end of the relevant accounting period or part thereof plus VAT or similar taxes which may be applicable.

GAV is to be calculated on a semi-annual basis and is derived from the consolidated balance sheet of the Company after adding back any dividends declared or paid in relation to such accounting period. For these purposes GAV is the aggregate of the consolidated non-current and current assets of the Company adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the Company's Property Valuation Policy outlined in paragraph 16 of Part 1 of this document and where forward funding commitments granted by the Company exist, the aggregate amount of sums committed to the relevant developments less its consolidated liabilities excluding bank or third party indebtedness.

The Management Fee is payable to the Manager semi-annually in cash.

The Manager will also receive an annual Performance Fee calculated by reference to the increase in NAV over the relevant accounting period. For these purposes NAV is the aggregate of the consolidated non-current and current assets of the Company adjusted to reflect the value of its properties and other assets representing interests in property or property related activities valued in accordance with the Company's Property Valuation Policy outlined in paragraph 16 of Part 1 of this document and where forward funding commitments granted by the Company exist, the aggregate amount of sums committed to the relevant developments less its consolidated liabilities provided that, in respect of the Company's first accounting reference period, the opening NAV is equal to the net proceeds of the Placing receivable by the Company.

Where the NAV at the end of the relevant accounting period exceeds the highest NAV at the end of any previous accounting period (the "opening NAV") by 10% or more but not more than 35% the Manager is entitled to a Performance Fee in respect of such accounting period of 20% of the amount by which such excess exceeds 10% of the opening NAV.

Where the NAV at the end of the relevant accounting period exceeds the highest NAV at the end of any previous accounting period by 35% or more the Manager is entitled to an additional Performance Fee in respect of such accounting period of 25% of the amount by which such excess exceeds 35% of the opening NAV.

30% of the Performance Fee will be paid in cash within 10 business days following the publication of the Company's audited financial results for the relevant accounting period. The balance will be satisfied

by the issue of Ordinary Shares credited as fully paid at a price equal to the average middle market closing price of Ordinary Shares over the last 20 business days in the accounting period in relation to which the Performance Fee is being paid.

The Company is also obliged to reimburse the Manager for expenses reasonably incurred in connection with the performance of the services including.

The Company may terminate the Manager's appointment on at least 6 months' written notice expiring on or after the fifth anniversary of the Admission or without notice where the Directors are of the reasonable opinion that the Manager:

- (a) has committed a material breach of the Management Agreement and has failed to remedy such breach within 30 days of notice requiring it to do so;
- (b) has failed to exercise the requisite degree of care and skill contemplated; or
- (c) has committed any material breach of any regulatory requirement to which it is subject or failed to obtain, or no longer holds, any registration, filing, approval, authorisation or consent required of the Manager.

In addition in the event that any affiliate of the Manager ("Relevant Party") has the opportunity to acquire any property in Ukraine which is compliant with the Company's investment criteria as outlined in paragraph 3 of Part 1 of this document (a "Conflict Property") then the Manager shall cause the Relevant Party to provide, *inter alia*, all material details of the Conflict Property to the Company, in order for the Company to decide whether or not to notify the Manager that a member of the Group should pursue the opportunity to acquire the Conflict Property. If the Company so notifies the Manager of its intention to pursue the opportunity to acquire a Conflict Property, the Manager shall procure that no affiliate of the Manager shall acquire any interest in the Conflict Property in question without the prior consent of the Company.

#### 9.5 **Administration Agreement**

The Isle of Man Administration Agreement dated 23 February 2007 entered into between the Company and the IOM Administrator sets out the terms on which the IOM Administrator has agreed to provide the Company with financial administrative, registrar and company secretarial services for fees as follows: an annual retainer fee of £3,000 (payable in advance) in respect of the provision of a registered office and a suitably qualified company secretary, plus additional amounts (payable in arrears) calculated on a time spent basis. In addition, an incorporation fee (payable in advance) of £1,000 is payable. All fees are subject to VAT (if applicable). Annual fees will be subject to review annually. The Administration Agreement is terminable by the Administrator or the Company on 60 days notice. The Administrator shall provide or procure the appointment of an individual employee who shall be qualified to act as secretary of an Isle of Man public company to act as secretary to the Company and, if required, another such qualified individual employee in succession to him. The Company agrees to indemnify the Administrator against liability arising out of its appointment, subject to exclusion in the case of negligence, wilful default, breach of contract, fraud or dishonesty on the part of the Administrator or any of its employees.

#### 9.6 **Dragon Warrant Instrument**

The warrants are constituted by a Warrant instrument dated 16 May 2007. Each Warrant entitles DCP to subscribe in cash at the Placing Price for one Ordinary Share during the period commencing on Admission and terminating five years thereafter (the "Subscription Period"). DCP will have the right to subscribe for such number of Ordinary Shares as is equal to 5% of Ordinary Shares in issue on Admission. In the event that during the Subscription Period the number of Ordinary Shares in issue is increased as a result of subscription by any existing shareholder or third party investor, the Company shall issue such number of additional Warrants as shall be necessary to ensure that DCP shall have the right to subscribe for 5% of such additional Ordinary Shares at a price per Ordinary Share equal to that subscribed by such shareholder or investor.

The Warrants will not be listed or dealt in on AIM, the market known as Plus or any recognised investment exchange (as defined in the Financial Services and Markets Act 2000).

Ordinary Shares allotted on the exercise of Warrants will rank for all dividends and distributions declared on or after the date on which the relevant notice of exercise is lodged and otherwise shall have the rights and privileges prescribed in the Articles in relation to Ordinary Shares.

If, at the time of issue of Ordinary Shares pursuant to the exercise of Warrants, the Ordinary Shares are quoted on the Official List or are traded on AIM or permission has been granted for dealings therein on any other recognised investment exchange in any part of the world, the Company will apply to for permission to deal in or for quotation or admission of such Ordinary Shares (as the case may be) and shall use its reasonable endeavours to procure such permission, quotation or admission, as the case may be.

The warrant instrument contains provisions to adjust the subscription price and/or the number and/or nominal amount of Ordinary Shares to be subscribed following an issue, sub-division or consolidation of Ordinary Shares and to allow warrant holders to participate in any offer or invitation made to the holders of Ordinary Shares as if the subscription rights had been exercised before the record date of such offer or invitation or, in the case of a takeover offer, to exercise the Warrants.

#### 9.7 ***ZAI Warrant Instrument***

The warrants are constituted by a Warrant instrument dated 16 May 2007. Each Warrant entitles ZAI to subscribe in cash at the Placing Price for one Ordinary Share during the period commencing on Admission and terminating five years thereafter (the "Subscription Period"). ZAI will have the right to subscribe for such number of Ordinary Shares as is equal to 1% of Ordinary Shares in issue on Admission.

The Warrants will not be listed or dealt in on AIM, the market known as Plus or any recognised investment exchange (as defined in the Financial Services and Markets Act 2000).

Ordinary Shares allotted on the exercise of Warrants will rank for all dividends and distributions declared on or after the date on which the relevant notice of exercise is lodged and otherwise shall have the rights and privileges prescribed in the Articles in relation to Ordinary Shares.

If, at the time of issue of Shares pursuant to the exercise of Warrants, the Ordinary Shares are quoted on the Official List or are traded on AIM or permission has been granted for dealings therein on any other recognised investment exchange in any part of the world, the Company will apply to for permission to deal in or for quotation or admission of such Ordinary Shares (as the case may be) and shall use its reasonable endeavours to procure such permission, quotation or admission, as the case may be.

The Warrant instrument contains provisions to allow warrant holders to participate in any offer or invitation made to the holders of Ordinary Shares as if the subscription rights had been exercised before the record date of such offer or invitation or, in the case of a takeover offer, to exercise the Warrants.

#### 9.8 ***Lock-ins***

Under the terms of the Lock-in Agreements, each of the Directors and DCP has agreed, save in limited circumstances noted below, not to dispose of any holdings of, or interests in, Ordinary Shares for a period of 12 months following Admission without the prior written consent of ZAI. In the subsequent 12 month period, they will be entitled to dispose of their interests in Ordinary Shares provided that they shall have first consulted with ZAI and provided that such disposal is first sought to be made through ZAI in an orderly manner.

In addition DCP has also undertaken, save in limited circumstances, not to dispose of any Ordinary Shares in which it is or may become interested whether pursuant to the Dragon Warrant Instrument, the Management Agreement or otherwise at any time prior to the first anniversary of the allotment of such shares.

In each case certain disposals are permitted including: (i) the acceptance of a general offer (or an agreement or undertaking to accept such an offer) for the share capital of the Company made in accordance with The City Code on Takeovers and Mergers, or the execution of an irrevocable undertaking to accept such an offer; (ii) a transfer to a trustee to create a new settlement or a

beneficiary under a trust, the beneficiaries of which are the relevant Director and/or a member of the relevant Director's family; and (iii) a disposal on death.

#### **10. WORKING CAPITAL**

In the Directors' opinion, having made due and careful enquiry, the working capital available to the Company following the Placing will, from Admission, be sufficient for its present requirements, that is for at least the next 12 months.

#### **11. LITIGATION**

The Company has not been and is not currently engaged in any legal or arbitration proceedings nor, so far as the Company is aware, are there any such legal or arbitration proceedings pending or threatened by or against the Company which may have or have had since the Company's incorporation a significant effect on the Company's financial position or profitability.

#### **12. TRADING HISTORY**

The Directors confirm that the Company was incorporated and registered on the date referred to in paragraph 2.1 above and that, save for its entry into the material contracts described in paragraph 9 above, the Company has not traded, no accounts have been made up and no dividends have been declared.

#### **13. SIGNIFICANT CHANGE**

There has been no significant change in the financial or trading position of the Company since 28 February 2007 the date to which the financial information in Part 6 has been prepared, or any factors which have influenced its activities. The Company does not have nor has it had since incorporation any employees and it neither owns nor leases any premises.

#### **14. EXPENSES**

The estimated total costs and expenses payable by the Company in connection with the Placing and Admission (including professional fees, the costs of printing and the other fees payable, excluding project fee) will be approximately 1.4% of the gross amount raised.

#### **15. MISCELLANEOUS**

15.1 The ISIN number of the Ordinary Shares is IM00B1XH2B90. The SEDOL code of the Ordinary Shares is B1XH2B9.

15.2 The Company was incorporated on 23 February 2007 and has not prepared any statutory accounts and therefore has yet to appoint statutory auditors.

15.3 Baker Tilly Corporate Finance LLP has given and not withdrawn its written consent to the inclusion of its report in the form and context set out in Part 6 of this document. Baker Tilly Corporate Finance LLP has no material interest in the Company.

15.4 ZAI has given and not withdrawn its consent to the inclusion of its name in the form and context set out in this document.

15.5 Other than as provided in the City Code on Takeovers and Mergers there are no rules or provisions relating to mandatory takeover bids in relation to the Ordinary Shares. There are no rules or provisions relating to squeeze-out and/or sell-out rules, save as provided by the Articles of the Company relating to the Ordinary Shares.

15.6 The Company has established a web-site at [www.dragon-upd.com](http://www.dragon-upd.com) to comply with the requirements of Rule 26 of the AIM Rules for Companies.

#### **16. ADMISSION DOCUMENT**

A copy of this document will be available for inspection during normal hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of Zimmerman Adams International Limited, New Broad Street House, 35 New Broad Street, London EC2M 1NH and Simcocks Trust Limited, Top Floor, 14 Athol Street, Douglas, Isle of Man IM1 1JA from the date of this document until the date one month after Admission.

Dated: 25 May 2007





