

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser. If you have sold or otherwise transferred all of your Ordinary Shares in Dragon-Ukrainian Properties & Development plc please pass this document (together with the accompanying documents) as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the Ordinary Shares.

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**DRAGON-UKRAINIAN PROPERTIES & DEVELOPMENT PLC**

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

**RECOMMENDED PROPOSAL TO CHANGE THE INVESTING POLICY**

**ADOPTION OF NEW MANAGEMENT AGREEMENT**

**ADOPTION OF A DIRECTORS INCENTIVE PLAN**

**RE-REGISTRATION AS A 2006 ACT COMPANY**

**AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE COMPANY**

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**This circular should be read as a whole. Your attention is drawn to the letter from the Chairman which is set out on pages 5 to 17 of this document.**

Notice of an EGM of Dragon-Ukrainian Properties & Development plc, to be held at 12.00 p.m. on 17 February 2014, at Boston Limited, 2<sup>nd</sup> floor, Belgravia House 34-44 Circular Road, Douglas, Isle of Man, IM1 1AE is set out on page 38 of this document.

Shareholders will find enclosed a Form of Proxy for use at the EGM. Whether or not you propose to attend the EGM, please complete and return the Form of Proxy so as to be received not later than 12.00 p.m. (London time) on or before 13 February 2014 at Boston Limited, 2<sup>nd</sup> floor, Belgravia House 34-44 Circular Road, Douglas, Isle of Man, IM1 1AE. Please note that a proxy need not also be a Shareholder.

This document has been prepared by, and is the sole responsibility of, the Company, and has not been approved by the UK Listing Authority or AIM.

## DIRECTORY

|  |  |
|--|--|
| <b>Directors</b>                       | Rory Macnamara (Chairman)<br>Aloysius Wilhelmus Johannes van der Heijden<br>Fredrik Svinhufvud<br>Tomas Fiala        |
| <b>Company Secretary</b>               | Tracy Duncan   |
| <b>Registered Office</b>               | Boston Limited<br>2 <sup>nd</sup> Floor<br>Belgravia House<br>34-44 Circular Road<br>Douglas, Isle of Man<br>IM1 1AE |
| <b>Nominated Adviser and Broker</b>    | Panmure Gordon (UK) Limited<br>One New Change<br>London, EC4M 9AF  |
| <b>Lawyers (as to English law)</b>     | Taylor Wessing LLP<br>5 New Street Square<br>London<br>EC4A 3TW  |
| <b>Lawyers (as to Isle of Man law)</b> | Dougherty Quinn<br>The Chambers<br>5 Mount Pleasant<br>Douglas, Isle of Man<br>IM1 2PU                               |

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## EXPECTED TIMETABLE

|  |                                   |
|--|-----------------------------------|
| Latest time and date for receipt of Forms of Proxy for the EGM | 12.00 p.m. on 13<br>February 2014 |
| Extraordinary General Meeting                                  | 12.00 p.m. on 17<br>February 2014 |

*Each of the times and dates in the above expected timetable may be extended without further notice. If any of the above times and/or dates change, the revised time(s) and/or date(s) will be notified to Shareholders by an announcement. All references to times are to London time unless otherwise stated.*

## PART I – LETTER FROM THE CHAIRMAN

### DRAGON-UKRAINIAN PROPERTIES & DEVELOPMENT PLC

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

*Directors:*

Rory Macnamara (Chairman)  
Aloysius Wilhelmus Johannes van der Heijden  
Fredrik Svinhufvud  
Tomas Fiala

*Registered Office:*

Boston Limited  
2<sup>nd</sup> Floor  
Belgravia House  
34-44 Circular Road  
Douglas, Isle of Man  
IM1 1AE

23 January 2014

Dear Shareholder,

I am writing to you to outline details of important proposals regarding the future of Dragon-Ukrainian Properties & Development plc (the “**Company**”), following discussions with the Company’s existing investment manager, Dragon Capital Partners Limited (the “**Manager**”).

#### 1. The Proposals

The Board, in conjunction with the Manager, has undertaken a review of the future strategy for the Company and has also consulted with a number of the Company’s major Shareholders. This circular sets out details of, and seeks your approval for, the proposals set out below (the “**Proposals**”) and explains why your Board is recommending that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting to be held on 17 February 2014. Notice of the Extraordinary General Meeting is set out at the end of this circular.

The Board is proposing, subject to Shareholder approval, that the Company:

- adopts a new investing policy to reflect the Company’s fully invested status, its plans to make no new property investments and monetise its existing Property investments as quickly and effectively as the Ukrainian property market will allow and return the proceeds to Shareholders;
- adopts a new management agreement to align the Manager’s fees with the new investing policy;
- adopts a new directors incentive plan to realign the Directors’ remuneration (other than Tomas Fiala) to reflect the additional time that the Directors will be required to spend on overseeing the Manager’s execution of the New Investing Policy (these changes will also require an amendment to the Company’s existing articles of association); and

- re-registers as a company regulated in the Isle of Man by the 2006 Act (as opposed to being currently regulated in the Isle of Man by the 1931 Act) in order to facilitate distributions to Shareholders (these changes will also require an amendment to the Company's existing articles of association).

In addition to the Proposals, the Board is proposing, subject to Shareholder approval, that the Company adopts new articles of association reflecting such changes are required following recent changes to the Takeover Code.

## 2. Background to and principal reasons for the proposed New Investing Policy

The Company was incorporated on 23 February 2007 in the Isle of Man as a company limited by shares, with an indefinite life. The Company raised US\$208 million in June 2007 ("**First Placing**") when it was admitted to trading on AIM on 1 June 2007, at a price of US\$2.00 per Ordinary Share (equating to £1.01 per Ordinary Share at the time). The Company adopted a broad Ukrainian real estate investment strategy focused on development and redevelopment opportunities in both commercial and residential properties as well as the acquisition of existing real estate and sale and leaseback transactions.

The Company expected to invest the net proceeds of the First Placing within 24 to 30 months after Admission. The strategy included the Company working towards a target dividend yield of 7 to 10 per cent. per annum at the US\$2.00 First Placing price and also an intention that in due course the dividends paid by the Company would represent not less than 85 per cent. of annual net profits. When the Company was admitted to trading on AIM in June 2007, its directors believed that, in addition to the typical development profit created upon completion of each project, Shareholders would benefit from further increases in the capital value of real estate properties by the expectation of further yield compression as the Ukrainian real estate market became more mature.

After the Company had invested certain amounts of the funds from the First Placing, the Company raised a further US\$100 million in November 2007 at price of US\$2.73 per Ordinary Share (equating to £1.30 per Ordinary Share at the time) (the "**Second Placing**"). Since June 2007, the Company has invested in a broad portfolio of property and property interests, including a significant investment in a land bank project.

The evolution of the Company's net asset value has reflected the challenging property market. As at 30 June 2013, the Company reported a net asset value ("NAV") per Ordinary Share of US\$1.81. This compares to the US\$2.00 First Placing price and the US\$2.73 Second Placing price. The Company has raised a gross amount of US\$308 million and returned US\$21.7 million to Shareholders, resulting in monies raised, net of capital returned to Shareholders, of US\$286.3 million. This compares to the Company's Net Asset Value at 30 June 2013 of US\$180.3 million.

Whilst the Ukrainian property market has recovered somewhat from the downturn experienced in the 2008-2010 period, the recovery has been slow and property values and deal volumes are still far below the levels seen prior to the 2008 economic crisis. Whilst the Ukrainian property market is seeing signs of recovery, the Board, as advised by the Manager, believes that the recovery will continue to be slow and present challenges over the foreseeable future, particularly in relation to the securing of debt financing for development projects and in relation to the mortgage market for residential buyers.

Given this backdrop, the timelines for the Company's holdings of a number of its Properties have extended beyond those envisaged at the time of original investment, particularly the development projects which have suffered from the challenging property financing environment and low demand levels.

In response to the economic crisis, the Company has focused its investment in new projects away from development properties to income producing properties. There have been positive growth trends in the retail sector, which the Board, as advised by the Manager, believes have led to low vacancy rates and strong rental levels. In the residential sector, demand levels have been improving despite a dormant mortgage market, although this has not led to an increase in prices, which still remain significantly below the peak 2008 levels.

Taking the above matters into consideration, the Board has been discussing the Company's strategy for its Properties and the general Ukrainian property market and its outlook. In that regard, the Board, as advised by the Manager and in consultation with a number of the major Shareholders, believes that a change of the Company's investing policy to that of an orderly realisation of the Company's Properties over the medium term with a view to maximising returns for Shareholders, is therefore appropriate.

The Company is an "investing company" for the purposes of the AIM Rules for Companies. Rule 8 of the AIM Rules for Companies requires an investing company to state and to follow an investing policy and to seek the prior consent of its shareholders at a general meeting for any material change to such policy. The adoption of the New Investing Policy represents a material change from its Current Investing Policy, and as such requires the prior approval of Shareholders.

Further details of the Company's proposed new investing policy (the "**New Investing Policy**") are set out in paragraph 4 of this circular.

### **3. Property overview**

The Company's Property projects that consist of multiple phases are principally the residential developments of Obolon Residences, Riviera Villas and Green Hills.

In Part II of this circular there is a brief summary of the status of each of the Company's Properties, and the high level realisation strategy for each such Property.

### **4. New Investing Policy**

The New Investing Policy, the adoption of which is conditional upon Shareholder approval, includes:

- no investment in new property that is not currently part of the Company's Property portfolio;
- investment in existing Properties only to protect or enhance the value and saleability of such Property, and/or where the Company is contractually committed to make such investment;
- commencement of construction on any of its existing Properties where construction has not yet commenced only to protect or enhance the value and saleability of such Property;

- orderly realisation of the Company's Properties over the medium term with a view to maximising returns for Shareholders; and
- distribution of the net proceeds of any disposal of the Company's Properties to Shareholders, subject to the retention of funds for the Company's remaining Properties and for general working capital requirements.

Shareholders should be aware that certain of the Company's Properties are at various stages of development and will require further funding in order to complete the development of such Properties. The Company will only commence construction on any of its existing Properties that have yet to commence construction to protect or enhance the value and saleability of such Property. In respect of such Properties, the Company will also continue to pursue, where necessary, any licences and/or approvals which are required for a particular Property.

It is expected that the Company will continue with the development of selected mixed use (which may include retail/commercial use) and residential projects within the Company's existing Properties. The Company will also continue to pursue, where necessary, any licences and/or approvals which are required for such Properties to continue its development. The Board and the Manager will carefully review those Property projects consisting of multiple phases to ensure that further investment in such projects would be expected to improve the Company's overall return from such Property project.

Full details of the New Investing Policy are set out in Part III of this circular.

## **5. Implementation of the New Investing Policy**

The Board has considered the nature of the Property portfolio and the resources needed to execute the New Investing Policy. The Board has also considered the Manager's detailed knowledge of the Property portfolio and the status of the each of the Properties, together with the Manager's knowledge of the other investors in those Properties not wholly owned by the Company and its knowledge of the Ukrainian real estate market and market participants. Taking all of this into consideration, the Board believes that the Manager has sufficient experience to execute the New Investing Policy.

If the New Investing Policy is adopted, the Board and the Manager will investigate a number of approaches to realisation of the Company's Properties, which will include, but not be limited to, sales of individual assets or groups of assets or a sale of the entire portfolio (or a combination of such methodologies).

Shareholders should be aware that risks and uncertainties will apply to the implementation of the New Investing Policy. In particular the timing and quantum of the realisation of the Company's Properties and prevailing market conditions may result in such assets being realised at amounts below the latest reported net asset values. A description of the potential risks associated with the New Investing Policy is described in more detail in Part IV of this circular.

### *Realisation of Properties*

If the New Investing Policy is adopted, the Board will work with the Manager to implement the New Investing Policy in as effective and efficient a manner as possible. However, the rate at which the

Company's Properties are realised and the subsequent distributions to Shareholders will depend, in particular, on the ease with which the Company's Properties can be realised. The Company's Properties are relatively illiquid in the current market environment and, consequently, it may take longer than originally envisaged to realise the value of such Properties on acceptable terms. Consequently the risks, timing and the quantum of any distributions to Shareholders are uncertain and will in part depend on the ongoing costs payable during the execution of the New Investing Policy and settlement of liabilities as they arise.

#### *Capital return methodology*

If the New Investing Policy is adopted, the Board will seek to return any surplus funds to Shareholders when appropriate. The adoption of the New Investing Policy is not expected to result in any distributions to Shareholders in the short term as its implementation is likely to require the Company to retain existing cash resources to fund its on-going working capital and running costs (including the fees payable to the Manager) and investment in certain of its existing development projects in accordance with the New Investing Policy.

It is expected that any surplus funds will be returned to Shareholders over time in a manner which may involve dividends, share buy-backs and tender offers. The Board will only consider in-specie distributions to Shareholders when other realisation alternatives have been fully explored and the relevant Property investment is quoted on a stock exchange. The decision to make any such returns, the method through which such returns are effected, as well as the quantum, timing and form of any such returns will be at the sole discretion of the Board.

In order to allow the Board to effect any distributions to the shareholders in a cost effective and in an administratively efficient fashion, the Board, acting on Isle of Man legal advice, recommends re-registering the Company as a 2006 Act company in the Isle of Man, details of which are discussed in paragraph 11 below.

Further details on returns to Shareholders will be provided when a decision on a distribution is taken by the Board, certain types of which may require Shareholder approval.

#### **6. Expertise of the Directors in respect of the New Investing Policy**

The Directors of the Company (other than Tomas Fiala who is the principal shareholder of the Dragon Capital Group) are independent non-executive Directors and have experience in international real estate investment and development, securities investment and international fund administration.

##### ***Rory Macnamara - Chairman***

Rory Macnamara qualified as a chartered accountant with Price Waterhouse before joining Morgan Grenfell, later Deutsche Morgan Grenfell, in 1981 as an investment banker. Over the following seventeen years he advised clients on a wide range of corporate finance and M&A issues and became Head of the Advisory/M&A division in 1995 and Deputy Chairman the following year. In 1999 Rory joined Lehman Brothers as Head of UK Coverage and led teams advising a number of major UK and international clients. In 2001 he became an independent consultant working with Lehman Brothers on M&A projects and with other companies on their business development and financial and acquisition strategies. Besides this extensive corporate finance experience he also brings a significant understanding of public company management

and shareholder value enhancement from the many boards he has joined and led over the past 10 years.

#### ***Aloysius Wilhelmus Johannes van der Heijden***

Mr. van der Heijden has worked in the real estate industry for more than 30 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 non-executive partner of DTZ Zadelhoff (The Netherlands), chairman of DTZ Kiev BV and managing director N.V. Het Havengebouw Amsterdam.

#### ***Fredrik Svinhufvud***

Fredrik Svinhufvud is currently Chairman of 2ER ([www.2er.com.ua](http://www.2er.com.ua)). 2ER is a holding company for Vindkraft Ukraina which is active within the development and production of renewable energy in the Kherson region in Ukraine. Fredrik started his professional career as a field engineer with Schlumberger Oil Field Services and has later held several international positions within the same sector in both South and North Americas, the North Sea and Russia with Schlumberger, Atlas Copco, Geco Well Services and Malka Oil (publ.) respectively. From 1994 he was at first Factory Manager and from 2001 - 2007 managing director at Tetra Pak Ukraine. In March 2006 Fredrik was voted the President of the European Business Association (EBA) in Ukraine. Fredrik also owns and operates his family estate in the south of Sweden.

#### ***Tomas Fiala***

Mr. Fiala has been the principal shareholder of the Dragon Capital Group, a Kyiv-based investment banking group, since April 2000. Mr. Fiala started his career at Bayerische Vereinsbank in Prague in 1994, continuing studies at the Prague University of Economics. In 1995, Mr. Fiala joined Wood & Co., a leading investment bank in Central and Eastern Europe, and was sent a year later to Ukraine to establish and run their office in the country. Under his leadership, Wood & Co. became the largest investment bank in Ukraine. Following the 1998 financial crisis Mr. Fiala established the Dragon Capital Group 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. Mr. Fiala is currently serving as a chairman of the supervisory board of Karlivka Machine-building Plant, Ukraine's leading agricultural equipment producer. Since December 2010, Mr. Fiala has served as elected President of the European Business Association (EBA). He is also a member of the Council of Investors, established by the President of Ukraine in January 2011.

### **7. Experience of the Manager**

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

As part of the discussions regarding the Third Management Agreement (as detailed in paragraph 9 of this circular), Dragon Capital Partners Limited (the existing Manager) informed the Board that due to an internal reorganisation, the Dragon Capital Group wished to change the corporate entity that would act as the investment manager of the Company. The new entity, DCM Limited, which

will be the Manager when the Third Management Agreement is entered into, will replace Dragon Capital Partners Limited as the Company's investment manager. References in this circular to "the Manager" shall be to Dragon Capital Partners Limited prior to this replacement, and to DCM Limited following such replacement.

Other than the change in the corporate entity of the Manager, the Dragon Capital Group has confirmed that no other changes will occur, including the financial covenant, management and other resources that were previously deployed by Dragon Capital Partners Limited. Tomas Fiala is the principal shareholder of the Dragon Capital Group.

The following sets out Dragon Capital Group's real estate experience, through its private equity investment activities (other than its management of the Properties of the Company), 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 adviser on the development of a 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 three 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 the Manager possess expertise in the Ukrainian investment market across a wide spectrum of industry sectors, including the local real estate market. The Manager 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.

#### *Regulatory status*

The Manager is not authorised or regulated by the Financial Conduct Authority or any other overseas regulator. Dragon Capital Limited, part of the Dragon Capital Group, is a financial institution (securities broker and depositary institution) and is regulated by the National Securities and Stock Market Commission (Ukraine).

## **8. Independence of the Board and the Nominated Adviser**

The Company confirms that the Board as a whole, and the Nominated Adviser, are independent from the Manager. Furthermore, the Company confirms that the Board as a whole, and the Nominated Adviser, are independent of any substantial shareholders (as defined in the AIM Rules for Companies), or investments (and any associated investment manager) comprising over 20 per cent. of the gross assets of the Company.

Tomas Fiala, as the principal shareholder of the Dragon Capital Group, of which the Manager is a member, is not independent of: (a) the Manager; or (b) ELQ Investors Limited (a substantial shareholder in the Company). ELQ Investors Limited is an affiliate of The Goldman Sachs Group, Inc. Goldman Sachs is a minority shareholder in the Dragon Capital Group.

## **9. Management agreement**

The Company has entered into a new management agreement with DCM Limited (the entity to replace Dragon Capital Partners Limited) in respect of its appointment as Manager, conditional on the adoption of the passing of Resolutions 1 to 5 (the "**Third Management Agreement**").

### *Existing management agreement*

On 23 April 2010 the Company and the existing Manager entered into the Second Revised Management Agreement.

Under the Second Revised Management Agreement the management fee was paid semi-annually in arrears at a rate of 1.5 per cent. of gross asset value.

Under the terms of the Second Revised Management Agreement, the gross asset value is the aggregate of the consolidated non-current and current assets of the Company adjusted to reflect the fair market value of its properties less its consolidated liabilities (excluding bank or third party indebtedness and the value of the management fee to be paid to the existing Manager in respect of the relevant accounting reference period).

Under the Second Revised Management Agreement the term of the agreement was for an indefinite period, however the Company could terminate the Manager's appointment on at least six months' written notice expiring on or after the fifth anniversary of Admission (being 1 June 2012).

Further details of the Second Revised Management Agreement are set out in Part V of this circular.

### *The Third Management Agreement*

The Company and the Manager have entered into the Third Management Agreement, which is conditional upon the approval by Shareholders of the Proposals, and which has commercial effect from 1 July 2013. The Third Management Agreement terminates the Second Revised Management Agreement with effect from 30 June 2013.

The Directors (excluding Tomas Fiala) consider that the proposed changes incorporated into the Third Management Agreement will incentivise the Manager to:

- dispose promptly of the Company's Properties; and
- achieve the best possible sales value for each Property in order to maximise the cash returns to Shareholders that would result in the Manager maximising the proposed performance fee payable under the Third Management Agreement.

The Third Management Agreement fees and term of the management agreement are summarised below.

#### *Management fee*

The management fee under the Third Management Agreement changes from a fee of 1.5 per cent. of Gross Asset Value to a fixed amount as follows:

- 1 July 2013 – 31 December 2013: US\$1.25 million
- 1 January 2014 – 31 December 2014: US\$2.5 million
- 1 January 2015 – 31 December 2015: US\$2.1 million
- 1 January 2016 – 31 December 2016: US\$1.7 million
- 1 January 2017 – 31 December 2017: US\$1.5 million
- 1 January 2018 – 31 December 2018: US\$1.4 million

The management fee under the Third Management Agreement is payable in cash, semi-annually in July and January of each year, within 10 business days after the end of the relevant period.

#### *Performance fee*

The performance fee under the Third Management Agreement would change from one which is calculated in two parts, being an increase in NAV and also an increase in share price performance, to the following, based on Distributions to Shareholders:

- in relation to Distributions up to Threshold 1, a fee of 3.5 per cent. of such Distributions;
- in relation to Distributions from Threshold 1 to Threshold 2, a fee of 7 per cent. of such Distributions; and
- in relation to Distributions in excess of Threshold 2, a fee of 10 per cent. of such Distributions.

Thresholds 1 and 2 are equal to US\$50 million and US\$75 million respectively, such amounts to increase by a minimum amount of any future increase in the Company's share capital and accrete by 6 per cent. per annum starting 1 January 2016 and 1 January 2017 (or such extended dates as the Company and the Manager may agree in the event of any future increase in the Company's share capital), respectively, calculated on a daily basis. The accretion of Threshold 1 will cease when Threshold 2 is achieved.

The performance fee under the Third Management Agreement is payable in cash (or in the case of a Distribution that is a distribution in specie, payable by the transfer to the Manager of the appropriate proportion of the financial instrument the subject of the distribution), simultaneously with the Distributions to which they relate.

#### *Term*

Once effective, the Third Management Agreement will expire on 31 December 2016, with two automatic extensions of twelve months each, as follows:

- if by 31 December 2016, Distributions of at least US\$42.4 million have been made (being 80 per cent. of US\$50 million multiplied by 1.06), the Third Management Agreement shall continue until 31 December 2017 at which point (and subject to the bullet point below), the appointment of the Manager shall expire automatically; and
- if by 31 December 2017, Distributions of at least US\$63.6 million have been made (being 80 per cent. of US\$75 million multiplied by 1.06), the Third Management Agreement shall continue until 31 December 2018 at which point, the appointment of the Manager shall expire automatically.

The amounts referred to above would increase by a minimum amount of any future increase in the Company's share capital, in which event the dates could also be extended with agreement of each of the Company and the Manager.

#### **10. Directors' remuneration**

The Directors intend to adopt the Directors Incentive Plan as detailed below, for all Directors other than Tomas Fiala (given that Tomas Fiala is a member of the Manager), conditional on the adoption of the passing of Resolutions 1 to 5. The Directors expect that additional time will be required to be spent on overseeing the Manager's execution of the New Investing Policy, and the Directors Incentive Plan will act as a further incentive to the Directors in the execution of the New Investing Policy.

If Resolutions 1 to 5 are approved the Directors Incentive Plan will become effective and the Directors (save for Tomas Fiala) will receive 0.35 per cent. of the aggregate amount of any Distributions paid or distributed to Shareholders at any time from 1 January 2013. The Directors have determined that this amount shall be divided as follows:

- for Mr Macnamara (in his capacity as the Chairman), 0.15 per cent. of the aggregate amount of any Distributions;
- for Mr van der Heijden, 0.10 per cent. of the aggregate amount of any Distributions; and
- Mr Svinhufvud, 0.10 per cent. of the aggregate amount of any Distributions,

(together the "**Directors Incentive Plan**").

For the avoidance of doubt, the Directors Incentive Plan is in addition to their existing directors fees, which were approved by the Board on 18 July 2013, being:

- Mr Macnamara (in his capacity as the Chairman) – US\$100,000 per annum, net of VAT (previously US\$50,000 in his capacity as a non-executive director);
- Mr van der Heijden – US\$50,000 per annum, net of VAT (previously US\$75,000 in his capacity as Chairman); and
- Mr Svinhufvud – an unchanged amount of US\$50,000 per annum, net of VAT.

Mr Fiala will continue to receive no remuneration for his service to the Company, but will be entitled to be compensated for all reasonable expenses he incurs in providing his services to the Company

## **11. Re-registration of the Company and new articles of association**

The Isle of Man provides two statutory frameworks for governing companies incorporated in the Isle of Man. Presently the Company is incorporated and governed by the 1931 Act. It is now proposed that in accordance with Section 148 of the 2006 Act, the Company make an application to the Isle of Man Companies Registry for re-registration as a company incorporated under and governed by the 2006 Act (the “**Re-registration**”). The Directors believe that the Re-registration will result in a more administratively effective and less costly alternative to implementing the terms of the New Investing Policy and subsequent distributions that may arise as a result of the New Investing Policy.

Following the Re-registration, the Company would have the ability to make distributions through the discretion of the Board provided that the Company satisfies a statutory solvency test. This solvency test includes the Directors being satisfied that the Company has sufficient assets to meet its liabilities and that the Company can pay its debts as they become due in the normal course of the Company’s business. The Re-registration would also result in greater flexibility for the Company in its onward administration, allowing the Board to more effectively implement the New Investing Policy.

In addition to the changes to the Company's articles of association referred to below, Re-registration would also remove any prohibitions on financial assistance and provide greater flexibility regarding potential share structures including the ability to reduce share capital and repurchase shares.

The Re-registration is conditional upon Shareholders passing Resolutions 1 to 5. Should the Re-registration be approved the Company will be required to adopt new memorandum and articles of association in accordance with the 2006 Act, and the changes between the Existing Articles of Association and the new articles of association of the Company in this respect are summarised in Part VII of this circular.

The new articles of association would also include the following changes:

- if Shareholders approve the Directors Incentive Plan, the Existing Articles of Association will need to be amended in order to permit the payment of these fees (Resolution 5 provides for the approval to the changes to the Existing Articles of Association required to implement these changes);
- changes required under the terms of the 2006 Act (Resolution 5 provides the approval to the changes to the Existing Articles of Association required to implement these changes);

- changes required to: (i) remove provisions that had been previously adopted to mirror certain provisions of the Takeover Code. These provisions need to be removed as following changes made to the Takeover Code, the Company is now subject to the Takeover Code with effect from 30 September 2013 and these existing provisions would otherwise now conflict with the provisions of the Takeover Code; and (ii) address certain other non-material administrative points (Resolution 6 provides for the approval to the changes to the Existing Articles of Association required to implement these changes).

If Resolutions 1 to 6 are all passed, Resolution 7 provides for the adoption of articles of association of the Company to include all changes that would otherwise be made in resolutions 5 and 6.

Copies of the Existing Articles of Association, blacklined to show: (i) the proposed changes detailed in the second and third bullet points above, and (ii) all the proposed changes detailed in the bullet points above will be made available from the date of this circular on the Company's website ([www.dragon-upd.com](http://www.dragon-upd.com)) and at the offices of Taylor Wessing LLP, 5 New Street Square, London EC4A 3TW until the end of the Extraordinary General Meeting and at the meeting venue itself for at least 15 minutes prior to the start of the meeting.

## **12. Related party transaction**

Under the AIM Rules for Companies, the Manager is deemed to be a related party of the Company, and the adoption of the Third Management Agreement is deemed to be a related party transaction for the purposes of Rule 13 of the AIM Rules for Companies.

The Directors (other than Tomas Fiala) consider, having consulted with the Company's Nominated Adviser, Panmure Gordon (UK) Limited, that the terms of the Third Management Agreement are fair and reasonable insofar as its Shareholders are concerned.

## **13. Other information**

### *Periodic announcements*

If the New Investing Policy is approved at the EGM, the Company will continue to keep the market informed of the status and progress which has been made in relation to its implementation in accordance with the requirements of the AIM Rules for Companies and the Note for Investing Companies.

In accordance with the applicable legal and regulatory requirements, the Board will continue to publish annual and half yearly reports, and will therefore continue to procure external valuations for these purposes to the extent necessary.

### *Taxation*

It is not the Company's intention that implementing the Proposals will alter the Company's taxation status. However, there is a residual risk that taxation authorities of other jurisdictions may assert that the Company is tax resident in its jurisdiction.

### *Consequences of not voting in favour of the Proposals*

If the Proposals are not approved:

- the Current Investing Policy will continue to be implemented;
- the Second Revised Management Agreement will continue to remain in place and the management fees will not be reduced to reflect the management fees under the Third Management Agreement as set out in Part V;
- the Directors Incentive Plan will not be implemented;
- the Re-registration will not be effected; and
- the Board will give consideration to putting forward alternative proposals for consideration at a subsequent extraordinary general meeting of the Company.

However, provided that Resolution 6 is passed, the articles of association provided to the meeting as Exhibit 3 will be adopted.

#### **14. Board recommendation**

The Board believes that the Resolutions are in the best interests of the Company and its Shareholders as a whole and accordingly unanimously recommends Shareholders to vote in favour of the Resolutions, as they intend to do in respect of their aggregate holdings of 200,000 Ordinary Shares, representing approximately 0.18 per cent of the Issued Share Capital. Tomas Fiala is not independent of the Manager and the Existing Manager and therefore has not taken any part in the Board's consideration of the Proposals.

Yours sincerely

**Rory Macnamara**  
*Chairman*

**PART II – SUMMARY OF PROPERTIES**

| <b>Name of Property</b>  | <b>Property type</b>  | <b>Company's ownership interest (per cent.)</b> | <b>Status (as at the date of the circular)</b>  | <b>Proposed plan for each Property</b>                         |
|--------------------------|-----------------------|---|---|--|
| Arricano Real Estate plc | Retail                | 12.51   | Separately quoted on AIM as of 12 September 2013. Owns a mix of income producing properties, properties under construction and properties to be developed | Sale of shareholding   |
| "Riviera Villas"         | Residential           | 59.6  | Key infrastructure largely completed. Community comprises 65 homes. 17 land plots sold to date.   | Completion of development and sale of land plots               |
| "Green Hills"            | Residential           | 100.0   | All key infrastructure is in place. Community comprises 178 homes, 35 land plots sold to date.  | Completion of development and sale of land plots               |
| Henryland Group Ltd      | Retail                | 38.0  | Three properties operational and income producing, three properties undeveloped   | Distribution of realised sale proceeds or sale of shareholding |
| "Avenue Shopping Centre" | Retail                | 18.8  | One property. Construction permit pending. Extension of the lease with authorities approved and being registered.   | Sale of shareholding   |
| "Glangate"               | Retail                | 100.0   | Two undeveloped land plots. Construction permit in place for one land plot. Development of the other land plot not commenced.                             | Sale of land plots   |
| "Landbank"               | Mixed use/Residential | 85.0  | First part of land rezoned for residential use (19.9 hectares). Rezoning approvals from authorities being sought on remainder (482.1 hectares)            | Complete rezoning of all land and seek sale                    |

|                  |             |       |   |  |
|------------------|-------------|-------|---|--|
| "Obolon"         | Residential | 99.9  | First phase foundation completed. Phase 1 of property currently under construction. Sales campaign commenced in October 2013. | Complete the development and seek sale of residential properties |
| "Sadok Vyshnevy" | Residential | 100.0 | 38 completed townhouse apartments   | Seek sale of apartments  |

## PART III – NEW INVESTING POLICY

### ***Investing Policy***

#### Investing strategy – asset allocation – geographic focus and sector focus

The Board will seek to realise the Company's Properties in an orderly manner, such realisations to be effected at such times, on such terms and in such manner as the Board (in its absolute discretion) may determine.

#### **Assets or companies in which the Company can invest**

The Company will not make any investments in new properties.

However, this will not preclude the Board (in its absolute discretion) from making any investment in existing Properties in the following circumstances:

- where the Board, as advised by the Manager, believes such investment is to protect or enhance the value and saleability of such Property;
- where the Company is contractually committed to make such investment;
- in respect of Properties currently under construction, where the Company continues to pursue, where necessary, any licences and/or approvals which are required for a particular Property to continue its development;
- undertaking investment in additional phases of such Properties (other than the existing phase currently being developed in respect of such Property) where the Board, as advised by the Manager, believes such investment in additional phases is to protect or enhance the value and saleability of such Property;
- authorising the expenditure of such capital as is necessary to: (i) acquire any joint venture party's interests in any of the Company's existing investments; or (ii) carry out any construction necessary to maximise value and saleability of any existing Property; and
- entering into any contract or other arrangement with any third party to realise all or any part of its existing Properties.

In addition, the Company will only commence construction on any of its existing Properties that have yet to commence construction to protect or enhance the value and saleability of such Property. In respect of such Properties, the Company will also continue to pursue, where necessary, any licences and/or approvals which are required for a particular Property.

These above restrictions will not preclude the Company making investments in short dated cash or near cash equivalent securities, which form part of its cash management practices.

### **Strategy by which the investing policy will be achieved**

The Board and the Manager will investigate a number of approaches to realisation of its Properties, which will include, but not be limited to, sales of individual assets or groups of assets or a sale of the entire portfolio (or a combination of such methodologies), or an in-specie distribution of such Property. The Board will only consider in-specie distributions to Shareholders when other realisation alternatives have been fully explored and the relevant Property investment is quoted on a stock exchange.

The Board and the Manager may decide to appoint independent advisers to assist in the execution of the New Investing Policy, including, but not limited to, property valuers and property agents.

### **Whether investments will be active or passive investments**

The Manager assumes a proactive approach to every Property project in the Company's Property portfolio.

### **Holding period for investments**

The New Investing Policy includes an orderly realisation of the Company's Properties over the medium term with a view to maximising returns for Shareholders. Accordingly, the Board will seek to realise the Company's Properties and exercise all legal rights of the Company in such manner and on such timescale as the Directors see fit, with a view to ensuring that returns to shareholders are maximised.

### **Spread of investments and maximum exposure limits**

The Company does not have a prescribed policy in relation to the spread of investments or maximum exposure limits.

The realisation of the Company's Properties over time, may result in the Company having a reduction in the diversification of investments. However, the realisation of the Company's Properties over time will also result in the reduction of the Company's overall investment in real estate assets.

### **Policy in relation to gearing and cross holdings**

The Board (in its absolute discretion) may make prudent use of leverage to make investments or expenditure consistent with its investing policy and to satisfy working capital requirements. Borrowings may be undertaken by the Company itself or by any of its subsidiaries or project companies.

Given that the New Investing Policy is an orderly realisation of the Company's Properties over the medium term, it is not expected that the Company will secure additional debt financing other than where the Company believes it is required to protect or enhance the value and saleability of such Property.

## **Investing restrictions**

Other than the requirement for the Manager to manage any potential conflicts of interest, and the requirement to invest in accordance with its New Investing Policy, there are no other investing restrictions.

## **Nature of returns that the Company will seek to deliver to Shareholders**

Under the New Investing Policy, the Board will seek to return any surplus funds to Shareholders when appropriate. The net proceeds of all Property realisations will be returned to Shareholders, at the Board's discretion, having regard to:

- the requirement to invest further funds in the Company's existing Property projects only to protect or enhance the value and saleability of such Property, and/or where the Company is contractually committed to make such investment;
- the Company's working capital requirements and running costs (including the fees payable under the Third Management Agreement);
- the cost and tax efficiency of individual transactions and/or distributions; and
- the 2006 Act.

It is expected that surplus capital will be returned to Shareholders over time in a manner which may involve dividends, share buy-backs, voluntary tender offers, dividends and/or capital reductions. The decision to make any such returns, the method through which such returns are effected, as well as the quantum and timing of any such returns will be at the sole discretion of the Board. The Board will only consider in-specie distributions to Shareholders when other realisation alternatives have been fully explored and the relevant Property investment is quoted on a stock exchange.

## Other matters

### *Cash management*

Pending future returns of value to Shareholders, all of the Company's funds (whether in the form of cash or otherwise) will be kept under the control of the Board or as it may direct.

### *Currency hedging*

The Company will hedge currency and interest rate risk as and to the extent that the Board (in its absolute discretion) considers appropriate.

### *Management of liabilities*

The Company will endeavour, at the direction of the Board (in its absolute discretion), to manage all actual or potential material liabilities, risks or exposures of the Company (including, without limitation, any existing contractual commitments, disputes (potential or actual) and litigation (threatened or actual)) in a manner consistent with the orderly realisation of the Company's Properties.

## **Conflict policy**

The Dragon Capital Group pursues a number of real estate development projects in Ukraine. Under the terms of the Third 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 Relevant Party has the opportunity to acquire 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 (within the scope of the New Investing Policy). 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.

## PART IV – RISKS IN RESPECT OF THE PROPOSALS

In considering your decision in relation to the Proposals, you are referred to the risks set out below.

**Shareholders should read this circular carefully and in its entirety and, if you are in any doubt about the contents of this circular or the action you should take, you are recommended to seek immediately your own personal advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the UK Financial Services and Markets Act 2000.**

In considering the Proposals set out in this circular, Shareholders should have regard to and carefully consider the risk factors described below in addition to the other information set out in this circular. The following are those risk factors which the Board considers to be material as at the date of this circular (based on the assumption that the Proposals are approved and implemented). If any of the adverse events described below actually occur, the Company's business, financial condition or results or prospects could be materially and adversely affected. Additional risks and uncertainties which were not known to the Board at the date of this circular or that the Board considers at the date of this circular to be immaterial based on the assumption that the Proposals are approved and implemented) may also materially and adversely affect the Company's business, financial condition or results or prospects.

- Implementation of the Proposals will only take effect if the Proposals are approved at the EGM. If the Proposals are not approved:
  - the Current Investing Policy will continue to be implemented;
  - the Second Revised Management Agreement will continue to remain in place and the management fees will not be reduced to reflect the management fees under the Third Management Agreement as set out in Part V;
  - the Directors Incentive Plan will not be implemented;
  - the Re-registration will not be effected; and
  - the Board will give consideration to putting forward alternative proposals for consideration at a subsequent extraordinary general meeting of the Company.
- If the New Investing Policy is adopted, this may possibly lead to speculation as to the prospects of the Company and the Properties in which it is invested. This in turn may have an adverse effect on the realisable value of the Company's Properties, in particular (but not only) in the short and potentially medium term. Accordingly, the implementation of the New Investing Policy may take time to achieve and no guarantee can be made as to the timing, or quantum, of any distributions to be made to Shareholders from the implementation of the New Investing Policy.
- There is no guarantee that the Company will achieve its New Investing Policy.

- The value of the Properties may fluctuate, as may exchange rates, and the value of Shareholders' investments in the Company could decline substantially.
- The Company's Properties may not be realised at their reported net asset value, and it is possible that the Company may not be able to realise some Properties at any value. Accordingly, the actual monies received by Shareholders (if any) may be materially different to that indicated by the last reported net asset value of the Company.
- As a result of the New Investing Policy, the value of the Properties may be reduced and concentrated in a few holdings with a negative impact on total expense ratios. As the New Investing Policy is implemented, it is likely that the number of the Company's investments will be reduced over time and accordingly the portfolio risk of the Company will increase as its investment diversification reduces.
- The realisation profile of the Properties is such that Shareholders may have to wait a considerable period of time before receiving any distributions pursuant to the New Investing Policy. During that time the Properties may not be managed in a balanced manner, which may adversely affect their performance.
- The Company's assets comprise mainly real estate investments, all of which are in Ukraine. Some investments may take a substantial length of time to realise, particularly those that are currently under development. There can be no guarantee that the Company will be able to realise its investments and distribute the proceeds to Shareholders within a specific period of time.
- The maintenance of the Company as an ongoing publicly quoted company will entail administrative, management, legal and regulatory costs. Such costs together with the ongoing payment of the management fee and performance fee payable under the Third Management Agreement will decrease the amount (if any) ultimately distributed to Shareholders.
- The exact timing, form and value of payments to Shareholders is uncertain and will depend, amongst other things, on the speed and price at which each Property of the Company is realised. The sale of some Properties may only be possible at prices substantially less than the values used to calculate the NAV per Ordinary Share.
- It should also be noted that there may be other matters or factors which affect the availability, amount or timing of receipt of the proceeds of realisation of some or all of the Company's Properties. In particular, ongoing returns of capital will decrease the size of the Company's assets, thereby increasing the impact of fixed costs incurred by the Company on the remaining assets. In determining the size of any distributions, the Directors will take into account the Company's ongoing running costs, however, should these costs be greater than expected or should cash receipts for the realisations of Properties be less than expected, this will reduce the amount available (if any) for Shareholders in future distributions.
- Any distributions to Shareholders will be made at the Directors' sole discretion, as and when they deem that the Company has sufficient funds available to do so. Shareholders will therefore have little certainty as to when they may receive any distributions.

- At any time, a substantial amount of the Company's assets may be denominated in Ukrainian hryvnia which is a currency that is not freely convertible into U.S. dollars. Consequently, Ukrainian hryvnia proceeds cannot be distributed to the Shareholders and there will be a delay, which may be substantial, between the time a Ukrainian hryvnia denominated asset is realised and the time the Company has U.S. dollars available for any Distribution.
- There can be no guarantee that the price of the Ordinary Shares will increase as a result of the implementation of the New Investing Policy as external factors (such as investor sentiment and risk appetites and general market conditions) may directly or indirectly affect the price of the Ordinary Shares.
- In the current market environment, the Company's investments in Property are relatively illiquid and may be difficult to realise. Accordingly, Shareholders may have to wait a considerable period of time before receiving any or all the proceeds of the implementation of the New Investing Policy.
- The exact timing, terms and quantum of returns from the New Investing Policy are uncertain and will depend, among other things, on market and general economic conditions and could be adversely affected by changes in, among other things, interest rates, rates of inflation, industry conditions, foreign exchange, competition and political events.
- The costs of realising the Company's investments may be significant. Certain of those costs may be avoidable if those investments were to be realised at a later date or over a longer period of time.

In addition to the risks outlined in this Part IV, Shareholders will continue to be subject to the risks as outlined in Part 5 of the Admission Document.

The foregoing factors are not exhaustive and do not purport to be a complete explanation of all risks and significant considerations relating to the Proposals. Accordingly, additional risks and uncertainties not presently known to the Board may also have an adverse effect on the Proposal and/or the Company's business, financial condition or results or prospects.

## PART V SECOND REVISED MANAGEMENT AGREEMENT

The Company and the Manager entered into the second revised management agreement on 23 April 2010 (the "**Second Revised Management Agreement**").

The following are the key terms of the Second Revised Management Agreement.

### *Management fee*

The management fee is paid semi-annually in arrears at a rate of 1.5 per cent. of Gross Asset Value.

### *Performance fee*

Under the Second Revised Management Agreement the performance fee for the Manager is assessed against growth in NAV and also growth in share price and remunerated for each separately.

The performance fee includes separate calculations for both NAV performance and share price performance, as set out below:

1) NAV performance fee:

| <b>Growth in NAV per share</b> | <b>Performance fee</b>  |
|--------------------------------|---|
| Under 10 per cent.             | 0 per cent.   |
| 10 per cent. or over           | 10 per cent. of the amount of NAV per share growth above the hurdle |

2) Share performance fee:

| <b>Growth in share price</b>                      | <b>Performance fee</b>                               |
|---|--|
| Final Share Price below or equal to £1.085        | 0 per cent.  |
| Final Share Price above £1.085 or high water mark | 10 per cent. of such excess over 10 per cent. growth |

### *Payment of performance fee*

30 per cent. of the performance fee will be payable to the Manager in cash within 15 business days following announcement of the Company's audited financial results through a regulatory information service provider for the relevant accounting reference period. The balance will be satisfiable by the issue of Ordinary Shares credited as fully paid. The price of those shares will be

equal to the closing NAV per Ordinary Share at the end of the relevant accounting reference period.

#### *High water mark*

The NAV performance fee high water mark is the highest previously achieved NAV at the end of a previous accounting reference period for which a NAV performance fee has been paid, which is US\$2.49, being the 31 December 2007 NAV, the last period for which a performance fee was paid to the Manager.

The share performance fee high water mark was initially set at £1.085, being the weighted average placing price of the Company's two fundraisings, and for subsequent accounting reference periods (provided that the Final Share Price is higher than £1.085) it is the higher of: (i) the closing share price on the first business day of the accounting reference period; and (ii) the 'Final Share Price'. The Final Share Price for any accounting reference period is calculated as the average closing mid-market share price for the ten days before and ten days immediately following the date on which the audited accounts of the Company are published in accordance with its duty to do so under Rule 19 of the AIM Rules for Companies.

#### *Net Asset Value*

For the purposes of calculating performance fees under the Second Revised Management Agreement, "NAV" is defined as the consolidated non-current and current assets of the Company adjusted to reflect the fair market value of its properties after adding back any dividends declared or paid in relation to such period and less the consolidated liabilities of the Company.

#### *Other provisions*

The Second Revised Management Agreement provides that in relation to the payment of the share element of any performance fees payable to the Manager, the Company agrees that, subject to any applicable legislation and shareholder consent, it will make reasonable efforts to purchase from Shareholders an equal number of Ordinary Shares to the element of the performance fee payable in Ordinary Shares to the Manager in respect of any relevant accounting reference period.

The Second Revised Management Agreement also includes pro-rata provisions for the calculation of the management fee and performance fee in the event of further issues of shares.

For the avoidance of doubt, the Second Revised Management Agreement was effective for the year ended 31 December 2010 and is currently effective until such time (if at all) as replaced by the Third Management Agreement.

Under the Second Revised Management Agreement the term of the agreement was for an indefinite period, however the Company could terminate the Manager's appointment on at least six months' written notice expiring on or after the fifth anniversary of Admission (being 1 June 2012).

## **PART VI – CURRENT INVESTING POLICY**

The Company's current investing policy is as follows:

### **INVESTING POLICY**

#### **Overview**

The Company was formed in 2007 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. In the current market environment, the Company is focused on opportunities to acquire completed, or semi completed retail and office properties at distressed valuations, with strong cash flow and low leverage.

#### **Assets or companies in which the Company can invest**

The initial focus of the Company is on the development of new and re-development of existing commercial properties in the retail, office and warehousing sectors. However, the Directors 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 is also actively seeking opportunities to enter into sale-and leaseback arrangements, mainly in the retail sector where the Directors believe such opportunities are likely to be present.

In the current market environment the Company is more focused on opportunities to acquire completed assets or assets at the final stage of development at distressed valuations. The Company's primary target is the acquisition of income generating properties in the office and retail segments, while the Company will also selectively assess opportunities on acquisitions of completed residential properties.

The Company's initial investment and development activities 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.

The Company has adopted a group structure of a type typically employed by overseas owners of Ukrainian real estate assets. The properties are typically owned by Ukrainian SPVs whose shares are typically wholly owned by Cypriot subsidiaries of the Company. The location of subsidiaries in Cyprus allows the Company to take advantage of an existing double taxation treaty between Ukraine and Cyprus. Subject to the limitations contained in applicable tax 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 tax favourable jurisdictions. The ultimate parent company, DUPD, is the sole owner of all Cypriot and other subsidiaries with the exception being where part of the project company is owned by DUPD's partner in such project. 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.

### **Strategy by which the investing policy will be achieved**

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 Manager will be responsible for identifying new investment opportunities for the Company that fall within the investing strategy set out in this circular. 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.

Whenever possible, the Company aims to acquire at least a 50 per cent. stake in the projects the Company invest in, to ensure sufficient control over the investment.

### **Whether investments will be active or passive investments**

The Manager assumes a proactive approach to every investment project in the Company's portfolio.

### **Holding period for investments**

As the Company has no fixed life, no time limits have been set as a matter of investing policy generally and individual holding periods will vary to achieve best value from each investment.

In order to maximise returns for shareholders, the Company plans to exit its commercial real estate projects via investment sale of the delivered properties post stabilization of rental income.

### **Spread of investments and maximum exposure limits**

The Company does not have a prescribed policy in relation to the spread of investments or maximum exposure limits.

### **Policy in relation to gearing and cross holdings**

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 per cent. 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. The Company does not have a policy on cross holdings, in relation to investments in other listed closed-ended investment funds.

### **Investing restrictions**

Other than the requirement for the Manager to manage any potential conflicts of interest, and the requirement to invest in accordance with its investing policy, there are no investing restrictions.

### **Conflict policy**

The Dragon Capital Group pursues a number of real estate development projects in Ukraine. Under the terms of the Second Revised 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 a Relevant Party has the opportunity to acquire any property in Ukraine which is 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.

### **Nature of returns that the Company will seek to deliver to Shareholders**

The investment objective of the Company is to provide Shareholders with strong capital growth by taking on existing opportunities in the retail, office and residential sectors in partnership with leading developers and operators.

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 First Placing and the Second Placing have been fully invested, the Directors intend to work towards a target dividend yield of 7 to 10 per cent. per annum at the US\$2.00 placing price and also currently intend that in due course dividends paid by the Company will represent not less than 85 per cent. 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.

## **PART VII – RE-REGISTRATION**

### **Repurchase of Shares**

The 2006 Act provides a more flexible method for a company to repurchase its shares. Under the provisions of the Companies Acts 1931 to 2004, applied by the Existing Articles of Association, the Company may only repurchase its shares out of distributable profits, and only then with the approval of the repurchase by special resolution of the Shareholders.

Article 6.5 of the new articles of association of the Company allows the Company, provided that it has approval by special resolution of the Shareholders, to repurchase its shares out of either capital or distributable profits, where it has made an offer to all Shareholders, or an offer to one or more Shareholders, to which the Directors have by resolution opined that the offer is to the benefit of all of the Shareholders and that the terms and the consideration of the offer is fair to all of the Shareholders. The reasons for this must be given in writing by the Directors in accordance with the 2006 Act. Also, any such repurchase may only be done provided the Board is satisfied that, immediately following the repurchase, the Company will be able to pay its debts as they become due and the value of its assets exceeds the value of its liabilities (the “**Solvency Test**”).

### **Reduction in Capital**

The provisions of the Companies Acts 1931 to 2004, applied by article 12 of the Existing Articles of Association, only allow the Company to reduce its share capital with the approval of both the Shareholders, by way of special resolution, and the Isle of Man High Court.

In accordance with the provisions of the 2006 Act, article 12 of the new articles of association of the Company allows the Board to authorise the reduction of the Company’s share capital, provided the board is satisfied that, immediately following the reduction in capital, the Company will satisfy the Solvency Test.

### **General Meetings of the Company**

The 2006 Act does not recognise the difference between annual general meetings and extraordinary general meetings, nor does it require an annual general meeting to be held by the Company each year. Contrary to the absence of this requirement in the 2006 Act, article 45 of the new articles of association of the Company requires the Company to hold an annual general meeting in every calendar year, with not more than 15 months passing between general meetings. This matches the requirement of the Company under the Existing Articles of Association.

Under article 48.1 of the new articles of association of the Company, the notice period for all general meetings of the Company, including annual general meetings, will be 14 clear days. This amends the provisions of the Existing Articles of Association, which requires 14 clear days' notice for most extraordinary general meetings and 21 clear days' notice for annual general meetings.

### **Distributions and Dividends**

Article 130 of the Existing Articles of Association authorises the Directors of the Company to pay dividends to the Shareholders at such times, and in such amounts, as may be determined by ordinary resolution of the Shareholders, provided such amount does not exceed any amount recommended to the Shareholders by the Board.

In accordance with the provisions of the 2006 Act, article 128.1 of the new articles of association of the Company authorises the Board to make distributions to the Shareholders, including the payment of dividends, at such times and in such amounts as the board see fit. The new articles of association of the Company continue to allow the Company to make distributions in specie, but require a special resolution to approve this, as opposed to an ordinary resolution under the Existing Articles of Association. Prior to paying any distributions or dividends, the Directors must be satisfied that, immediately following any such distribution or dividend, the Company will pass the Solvency Test.

### **Reserve Accounts**

Article 142 of the Existing Articles of Association allows the Board, with the authority of an ordinary resolution of the Shareholders, to capitalise amounts standing to the credit of any reserve account of the Company.

The 2006 Act does not require a company to maintain any reserve accounts. As a result, articles 142 and 143 of the Existing Articles of Association are superfluous for the purposes of the new articles of association of the Company, and have been removed.

In accordance with the new articles of association of the Company and the 2006 Act, any premiums received on the purchase of shares may be utilised by the Company as the Board sees fit. There is also no requirement for the Company to transfer amounts to a capital redemption reserve fund, in the event the Company buys back any of its issued shares.

## DEFINITIONS

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

|                                   |   |
|-----------------------------------|---|
| <b>"1931 Act"</b>                 | means the Companies Act 1931-2004, an act of Tynwald in the Isle of Man as amended;   |
| <b>"2006 Act"</b>                 | means the Companies Act 2006, an act of Tynwald in the Isle of Man as amended;  |
| <b>"Admission"</b>                | the admission of the Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies;   |
| <b>"Admission Document"</b>       | the Company's admission document dated 25 May 2007;   |
| <b>"AIM"</b>                      | AIM, a market of the London Stock Exchange plc;   |
| <b>"AIM Rules for Companies"</b>  | the rules for companies applying for admission to and whose securities are traded on AIM and published by London Stock Exchange as amended from time to time;   |
| <b>"Board" or "Directors"</b>     | the directors of the Company, as set out on page 2 of the circular;   |
| <b>"Company" or "DUPD"</b>        | Dragon-Ukrainian Properties & Development plc;  |
| <b>"Conflict Property"</b>        | any property in the Ukraine which is compliant with the Company's investing policy from time to time;   |
| <b>"Current Investing Policy"</b> | the Company's current investing policy which is set out in Part VI of this circular;  |
| <b>"Directors Incentive Plan"</b> | has the meaning ascribed to it in paragraph 10 of Part I of this circular;  |
| <b>"Distributions"</b>            | means the aggregate of the following amounts paid or distributed to Shareholders at any time from 1 January 2013 in accordance with the 2006 Act:<br><br>a) any cash dividends of the Company;<br><br>b) any cash distributed by the Company in connection with a buy back of shares in the capital of the Company;<br><br>c) the value of any distribution in specie distributed by the Company provided that such distribution in specie is: (i) made in accordance with the most recent investing policy of the Company from time to time approved by the Shareholders; and (ii) valued, for the purposes of calculating Threshold 1 and/or Threshold 2 (as referred to in paragraph 9 of Part 1 of this circular), by reference to the average middle market closing price of the financial |

instrument the subject of the distribution as taken from the Daily Official List published by the London Stock Exchange plc (or an equivalent source to be agreed between the parties) during the 30 trading days prior to the date upon which such distribution is declared; and

d) any cash or the value of any other consideration paid to Shareholders following an offer for shares in the capital of the Company that has become unconditional as to acceptances or pursuant to a scheme of arrangement under the terms of section 157 of the 2006 Act;

|   |   |
|---|---|
| <b>“DIY”</b>                                    | do it yourself;   |
| <b>“DCM Limited”</b>                            | a company registered in the British Virgin Islands under the number 1784669 and having its registered office at P.O. Box 3175, Road Town, Tortola, British Virgin Islands;  |
| <b>“Dragon Capital Group”</b>                   | Dragon Capital Holdings Limited (Cyprus), DRGN Limited (Cyprus), Dragon Capital Ltd (Ukraine), Dragon Capital Partners Limited (British Virgin Islands), Dragon Development Ltd (Cyprus) and DCM Limited (British Virgin Islands);  |
| <b>“EGM” or “Extraordinary General Meeting”</b> | the extraordinary general meeting of the Company to be held at 12.00 p.m. on 17 February 2014 (or any adjournment thereof) at the offices of Boston Limited, 2 <sup>nd</sup> floor, Belgravia House 34-44 Circular Road, Douglas, Isle of Man, IM1 1AE, notice of which is set out at the end of this circular;   |
| <b>“Existing Articles of Association”</b>       | the articles of association of the Company dated 14 November 2012 and available at the Company’s website;   |
| <b>“First Placing”</b>                          | the placing announced on 1 June 2007 relating to the issue of 104,000,000 Ordinary Shares;  |
| <b>“Form of Proxy”</b>                          | the form of proxy for use by Shareholders in connection with the EGM;   |
| <b>“Gross Asset Value”</b>                      | the aggregate of the consolidated non-current and current assets of the Company adjusted to reflect the fair market value of its properties less its consolidated liabilities (excluding bank or third party indebtedness and the value of the management fee to be paid to the existing Manager in respect of the relevant accounting reference period); |
| <b>“Group”</b>                                  | the Company and its subsidiaries;   |
| <b>“Issued Share Capital”</b>                   | the issued share capital of the Company as at 22 January 2014,  |

being 109,361,515 Ordinary Shares;

|  |  |
|--|--|
| <b>“Manager”</b>                               | Dragon Capital Partners Limited until its termination as manager under the Third Management Agreement, and DCM Limited from its appointment as manager under the Third Management Agreement; |
| <b>“NAV”</b>                                   | the net asset value of the Company, being the value of its gross assets less its liabilities;  |
| <b>“New Investing Policy”</b>                  | the Company’s proposed new investing policy, as set out in Part III of this circular;  |
| <b>“NLA”</b>                                   | net lettable area;   |
| <b>“Nominated Adviser” or “Panmure Gordon”</b> | Panmure Gordon (UK) Limited;   |
| <b>“Note for Investing Companies”</b>          | the “Note for Investing Companies” issued by the London Stock Exchange plc in June 2009, as amended from time to time;   |
| <b>“Notice of EGM”</b>                         | the notice of EGM contained at the end of this circular;   |
| <b>“Ordinary Shares”</b>                       | ordinary shares of 1 penny nominal value each in the share capital of the Company;   |
| <b>“Property” or “Properties”</b>              | the directly or indirectly held property or property interests held by the Company and/or its subsidiary undertakings, a summary of which is set out in Part II of this circular;            |
| <b>“Proposals”</b>                             | has the meaning ascribed to it in paragraph 1 of Part 1 of this circular;  |
| <b>“Relevant Party”</b>                        | an affiliate of the Manager;   |
| <b>“Resolutions”</b>                           | the resolutions proposed at the EGM;   |
| <b>“Second Revised Management Agreement”</b>   | has the meaning ascribed to it in Part V of this circular;   |
| <b>“Second Placing”</b>                        | the placing announced on 23 November 2007 relating to the issue of 36,630,100 Ordinary Shares;   |
| <b>“Shareholders”</b>                          | the holders of the Ordinary Shares;  |
| <b>“Takeover Code”</b>                         | the City Code on Takeovers and Mergers;  |
| <b>“Third Management</b>                       | has the meaning ascribed to it in paragraph 9 of Part I of this  |

|                                 |   |
|---------------------------------|---|
| <b>Agreement</b>                | circular;   |
| <b>“United Kingdom” or “UK”</b> | the United Kingdom of Great Britain and Northern Ireland;   |
| <b>“United States” or “US”</b>  | the United States of America, its territories and possessions, any state of the United States of America, any other areas subject to its jurisdiction and the District of Columbia; |
| <b>“US\$”</b>                   | United States Dollar, being the currency of the United States of America; and   |
| <b>“£”</b>                      | Pounds Sterling being the currency of the UK.   |

## NOTICE OF EXTRAORDINARY GENERAL MEETING

### DRAGON-UKRAINIAN PROPERTIES & DEVELOPMENT PLC

(Incorporated in the Isle of Man with registered number 119018C)

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of Dragon-Ukrainian Properties & Development plc (the "**Company**") will be held at 12.00 p.m. on 17 February 2014, at the offices of Boston Limited, 2<sup>nd</sup> floor, Belgravia House 34-44 Circular Road, Douglas, Isle of Man, IM1 1AE for the purposes of considering, and if thought fit, passing resolutions 1, 2 and which will be proposed as ordinary resolutions, and resolutions 3, 4, 5, 6 and 7, which will be proposed as a special resolutions:

1. THAT, subject to passing Resolutions 2, 3, 4 and 5 (save insofar as they relate to this Resolution 1 being passed), the Company's investing policy be and hereby is amended and restated in the terms set out in Part III of the circular of the Company dated 23 January 2014 (the "**Circular**").
2. THAT, subject to passing Resolutions 1, 3, 4 and 5 (save insofar as they relate to this Resolution 2 being passed), the management agreement produced to the meeting as Exhibit 1 (Third Management Agreement) and initialled by the Chairman for the purposes of identification be approved and that the directors of the Company be authorised to enter into such agreement.
3. THAT, subject to passing Resolutions 1, 2, 4 and 5 (save insofar as they relate to this Resolution 3 being passed), the directors incentive plan as described in paragraph 10 of Part I of the Circular be approved.
4. THAT, subject to passing Resolutions 1, 2, 3 and 5 (save insofar as they relate to this Resolution 4 being passed), the Company does hereby authorise the re-registration of the Company as a Company incorporated under the Isle of Man Companies Act 2006.
5. THAT, subject to passing Resolutions 1, 2, 3 and 4 and where Resolution 7 is not passed, the articles of association produced to the meeting as Exhibit 2 (Directors Incentive Plan and Re-registration Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association.
6. THAT, where Resolution 7 is not passed, the articles of association produced to the meeting as Exhibit 3 (Takeover Code Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association.
7. THAT, subject to the passing of Resolutions 1 to 6, the articles of association produced to the meeting as Exhibit 4 (New Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association.

By Order of the Board

**Rory Macnamara**

*Chairman*

**Registered Office:**

Boston Limited  
2<sup>nd</sup> floor  
Belgravia House  
34-44 Circular Road  
Douglas  
Isle of Man IM1 1AE

**Date:** 23 January 2014

### **Notes**

1. A member entitled to attend and vote at the Extraordinary General Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or notarially certified copy of such authority) must be deposited at Boston Limited, 2nd floor, Belgravia House 34-44 Circular Road, Douglas, Isle of Man, IM1 1AE by post so as to be received before 12.00 p.m. on 13 February 2014. A Form of Proxy is enclosed with this Notice of EGM. Completion and return of the Form of Proxy will not preclude members of the Company holding ordinary shares from attending and voting in person at the Extraordinary General Meeting.
3. Pursuant to Regulation 22 of the Uncertificated Securities Regulations 2005, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Extraordinary General Meeting is 12.00 p.m. on 13 February 2014 (being 48 hours prior to the time fixed for the Extraordinary General Meeting) or, if the Extraordinary General Meeting is adjourned, such time being 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Extraordinary General Meeting.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
5. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.

**DRAGON – UKRAINIAN PROPERTIES & DEVELOPMENT PLC**  
(the “Company”)

**FORM OF PROXY FOR EXTRAORDINARY GENERAL MEETING**

I, We .....  
of .....with Account Designation ..... being  
a member/members of the above-named Company, hereby appoint the chairman of the meeting or  
..... as my/our proxy to vote for me/us on my/our  
behalf at the Extraordinary General Meeting of the Company to be held at 2nd Floor Belgravia House, 34-44  
Circular Road, Douglas, Isle of Man IM1 1AE at 12.00 p.m. on 17 February 2014 and at any adjournment  
thereof.

If you wish to instruct your proxy as to how to vote on your behalf please indicate by an "X" in the  
appropriate box below.

**RESOLUTIONS**

|  | FOR | AGAINST | VOTE<br>WITHHELD | DISCRETI<br>ONARY |
|--|-----|---------|------------------|-------------------|
| 1. THAT, subject to passing Resolutions 2, 3, 4 and 5 (save insofar as they relate to this Resolution 1 being passed), the Company’s investing policy be and hereby is amended and restated in the terms set out in Part III of the circular of the Company dated 23 January 2014 (the "Circular").  |     |         |                  |                   |
| 2. THAT, subject to passing Resolutions 1, 3, 4 and 5 (save insofar as they relate to this Resolution 2 being passed), the management agreement produced to the meeting as Exhibit 1 (Third Management Agreement) and initialled by the Chairman for the purposes of identification be approved and that the directors of the Company be authorised to enter into such agreement.                              |     |         |                  |                   |
| 3. THAT, subject to passing Resolutions 1, 2, 4 and 5 (save insofar as they relate to this Resolution 3 being passed), the directors incentive plan as described in paragraph 10 of Part I of the Circular be approved.  |     |         |                  |                   |
| 4. THAT, subject to passing Resolutions 1, 2, 3 and 5 (save insofar as they relate to this Resolution 4 being passed), the Company does hereby authorise the re-registration of the Company as a Company incorporated under the Isle of Man Companies Act 2006   |     |         |                  |                   |
| 5. THAT, subject to passing Resolutions 1, 2, 3 and 4 and where Resolution 7 is not passed, the articles of association produced to the meeting as Exhibit 2 (Directors Incentive Plan and Re-registration Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association. |     |         |                  |                   |

|  |  |  |  |  |
|--|--|--|--|--|
| 6. THAT, where Resolution 7 is not passed, the articles of association produced to the meeting as Exhibit 3 (Takeover Code Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association.   |  |  |  |  |
| 7. THAT, subject to the passing of Resolutions 1 to 6, the articles of association produced to the meeting as Exhibit 4 (New Articles of Association) and initialled by the Chairman for the purposes of identification be adopted in substitution for, and to the exclusion of, the Company's existing articles of association. |  |  |  |  |

Signed .....

Date .....

**NOTES**

1. You may appoint a proxy of your own choice by deleting the words 'the chairman of the meeting' and inserting the name and address of your proxy in the space provided. If you sign and return this proxy form with no name inserted in the box, the Chairman of the Meeting will be deemed to be your proxy.
2. Unless otherwise instructed, a proxy may vote as he sees fit, or abstain from voting on any business (including amendments to resolutions) which may properly come before the meeting.
3. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
4. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated.
5. To be valid, this Form of Proxy must be completed signed and lodged with the Company Secretary at 2nd Floor Belgravia House, 34-44 Circular Road, Douglas, Isle of Man IM1 1AE by post so as to be received before 12.00 p.m. on 13 February 2014.
6. A proxy need not be a member of the Company but must attend the Meeting to represent you. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the Meeting and are aware of your voting intentions.
7. Completion and return of this Form of Proxy does not preclude a member of the Company from subsequently attending and voting in person at the Extraordinary General Meeting.
8. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution.
9. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.