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This document is an admission document required by the rules of the Alternative Investment Market of the London Stock Exchange plc ("AIM"). This document does not comprise a Prospectus for the purposes of the Prospectus Rules issued by the Financial Services Authority. Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Stephenson Harwood, One, St. Paul's Churchyard, London EC4M 8SH from the date of this document until one month from the date of Admission in accordance with rule 3 of the AIM Rules.

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

Application has been made for the Ordinary Shares issued and to be issued pursuant to the Placing to be admitted to trading on AIM. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Further, the London Stock Exchange has not itself examined or approved the contents of this document.** It is expected that Admission will take place, and dealings in the Ordinary Shares will commence on AIM, on 23 March 2006.

**Your attention is drawn in particular to the section entitled "Risk Factors" in Part I of this document.**

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# **Eastern European Property Fund Limited**

*(Incorporated and registered in Guernsey under the Companies (Guernsey) Law, 1994 (as amended) with registered number 44424)*

**Placing of up to 20,000,000 ordinary shares of 1p each  
at 100 pence per share**

**Admission to trading on AIM**

***Financial Adviser, Nominated Adviser and Broker***

**Collins Stewart Limited**

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Consent under The Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989, has been obtained for the issue of this document and the associated raising of funds. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council takes any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or the opinions expressed with regard to it.

Collins Stewart, which is authorised and regulated by the Financial Services Authority, is acting exclusively for the Company and no one else in connection with the Placing and the proposed Admission. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document.

This document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular the Ordinary Shares offered by this document have not been, and will not be, registered under the United States Securities Act of 1933 as amended (the "Securities Act") or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, Republic of Ireland or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia, Republic of Ireland or Japan. Neither this document nor any copy of it may be distributed directly or indirectly to any persons with addresses in the United States of America (or any of its territories or possessions), Canada, Australia, Republic of Ireland or Japan, or to any corporation, partnership or other entity created or organised under the laws thereof, or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement.

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## PLACING STATISTICS

Placing Price	100p
Number of Ordinary Shares being issued pursuant to the Placing*	20,000,000
Estimated expenses of the Placing payable by the Company*	£0.91 million
Estimated net proceeds of the Placing receivable by the Company*	£19.09 million
Market capitalisation at the Placing Price*	£20.00 million

*\*Assuming the Placing is subscribed in full*

## EXPECTED TIMETABLE

	<b>2006</b>
Payment from Placees in uncertificated form through CREST	22 March
Admission to trading on AIM and commencement of dealings	23 March
CREST stock accounts credited (as applicable)	23 March
Definitive share certificates despatched (as applicable)	Week commencing 3 April

## SUMMARY

**THE FOLLOWING INFORMATION IS EXTRACTED FROM, AND SHOULD BE READ AS AN INTRODUCTION TO, THE ADMISSION DOCUMENT.**

*Any investment decision relating to the Placing should be based on the consideration of this document as a whole.*

### **The Company**

Eastern European Property Fund Limited was incorporated in Guernsey on 27 February 2006 with an indefinite life. Its share capital is denominated in Sterling and consists of a single class of Ordinary Shares which will be admitted to trading on AIM.

### **Investment Objective**

The Company's investment objective is to provide Shareholders with a high level of income and potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Ukraine and Bulgaria (the "Target Countries").

### **Investment Policy**

The Company intends to invest in a range of office, retail, industrial and residential properties in the Target Countries. It is expected that there will be an initial focus on office and retail property. The Company will primarily seek to invest in income-producing properties in or around major urban centres in the Target Countries. The Company's primary policy will be to provide the equity financing to purchase existing or newly built properties.

The Company may also invest in the construction and development or refurbishment of properties, either wholly owned by the Company or in conjunction with other investors.

### **The Advisers**

Collins Stewart Fund Management Limited has been appointed by the Company as Manager to manage the Company's investments. Collins Stewart Property Fund Management Limited, a property fund management company and a subsidiary of the Manager, will provide property management and advisory services. CSPFM was formed in 2001 out of CNC Properties Plc, a successful property company with a 100-year history. CSPFM, which has 36 staff in 5 locations, manages a property portfolio, predominantly in the United Kingdom, with a market value of approximately £500 million, and over 1,100 tenants (as at 31 December 2005). It focuses on higher risk and management-intensive properties but is experienced in dealing with a variety of property contracts.

Active Property Investments Limited, a limited liability company incorporated in Guernsey on 1 March 2006, has been engaged by the Manager and the Company to act as Investment Adviser pursuant to the Advisory Agreement (details of which are set out in paragraph 7.2 of Part VII of this document). The Investment Adviser will be responsible for researching, sourcing and, with the approval of the Board, acquiring investments on behalf of the Company, managing any refurbishment or development projects and managing the sale of property in the Property Portfolio.

Keiran Gallagher, an executive director of the Investment Adviser, will manage the Investment Adviser's office in Istanbul in Turkey and, when established, its office in Kiev, Ukraine. Oliver Cadogan, an executive director of the Investment Adviser, will manage its office in Bucharest, Romania which will be established in 2006 and will also manage the Investment Adviser's activities in Sofia, Bulgaria. The Investment Adviser has undertaken to recruit local representation in Kiev and in Bucharest during 2006.

Through the network of local contacts of Keiran Gallagher and Oliver Cadogan (the "Principals") in the Target Countries, which have been built up over the past 3 years, the Company believes that it can

gain early access to a broader range of investment opportunities than may be typically available through international real estate consultants located in the Target Countries.

### **Market opportunity**

The Directors and the Advisers believe that the strong economic growth experienced in the Target Countries in recent years and the financial and structural reforms in these countries which have underpinned this progress, provide an attractive environment in which to undertake property investment in the Target Countries.

### **The Directors**

The Board consists of Charles Parkinson (Chairman), Richard Barnes, Carol Goodwin and Hugh Ward. Further details are set out in Part IV of this document.

### **Fees and expenses**

The Manager will receive an annual management fee of 1.75 per cent. of the Gross Asset Value.

In addition, the Manager will be entitled to a performance fee of 20 per cent. of the excess of the Adjusted NAV per Ordinary Share at the end of the relevant performance period over the higher of (i) the performance hurdle (an amount equal to the Placing Price increased at a rate of 7 per cent. per annum on a compounding basis up to the end of the relevant performance period); (ii) the Adjusted NAV per Ordinary Share at the start of the relevant performance period; and (iii) the 'high watermark'. Further details are set out in paragraph 7.1 of Part VII of this document.

### **Dividend policy**

Subject to the profits being available for distribution and assuming the Placing is fully subscribed, the Board is targeting, when the Company is fully invested, an annual dividend equivalent to at least 7.5 per cent. of the Placing Price\*. The Board anticipates that the Company will pay dividends on a semi-annual basis.

*\*The above returns are illustrative and based on a number of assumptions (including but not limited to issue size, rental yield achieved and property leverage) which may not materialise or be achieved. There can be no guarantee that the Company will generate the returns set out above. None of the above should be taken as a forecast of profits. See also "Dividend Policy" in Part II of this document.*

### **Life of Company**

The Company has no fixed life, but under the Articles, Shareholders will be given the opportunity to vote on the continuance of the Company at the annual general meeting to be held following the Company's seventh anniversary. If the resolution to wind up is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter.

### **Borrowings**

The Directors currently intend that as part of or following the acquisition of an investment, the Company, either directly or through its subsidiary property-holding companies, may borrow amounts of up to 70 per cent. of any single investment's purchase price. When the Company is fully invested, the Directors expect that up to 60 per cent. of the aggregate value of all investments may be financed from third party debt financing.

### **Hedging**

The Company does not intend to hedge the exchange rate risk on the Property Portfolio between Sterling and US Dollars, Euros or the local currencies in the Target Countries.

**Risk factors**

The attention of investors is drawn to the Risk Factors set out in Part I of this document.

There can be no guarantee that the investment objectives of the Company will be met.

An investment in the Ordinary Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment, or other investors who have been professionally advised with regard to investment, and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested).

The Ordinary Shares will be admitted to AIM. An investment in shares quoted on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the Official List. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The Ordinary Shares will be denominated in Sterling and the Company will report its results of operations and its financial position in Sterling. The Company expects to invest primarily in US Dollars, Euros or local currency in the Target Countries. As a consequence, Shareholders will experience fluctuations in the Net Asset Value and the market price of the Ordinary Shares as a result of movements in the exchange rates between Sterling and US Dollars, Euros or any local Target Country currency.

It is possible that not all of the total revenues recorded in the Group's consolidated financial statements will be available to the Company in the form of distributable profits from which to pay a dividend. The Directors may consider alternative means for making such distributions to Shareholders.

The financial operations of the Company may be adversely affected by general economic conditions and by economic conditions in the Target Countries. The performance of the Company would be adversely affected by a downturn in the property market in terms of capital value or weakening of rental yields. Any future property market recession could materially adversely affect the value of the properties.

The returns on the Ordinary Shares may be subject to the risks associated with the development of real estate projects.

The Company, either directly or through its subsidiary property-holding companies, is expected to be highly geared through borrowings, which will be secured on assets in the Property Portfolio. Where the cost of the Company's borrowings exceeds the return on the Company's assets, the borrowings will have a negative effect on the Company's performance. A relatively small movement in the value of the Property Portfolio or the amount of income derived from it may result in a disproportionately large movement, unfavourable as well as favourable, in the value of Ordinary Shares or the amount of income received in respect thereof.

Certain property investments may represent a significant proportion of the Company's gross assets. As a result, the impact on the Company's performance and the potential returns to Shareholders will be more adversely affected if any one of the property investments performs badly than would be the case if the Company's portfolio of property investments were more diversified.

The success of the Company is dependent on the performance of the Manager, CSPFM and the Investment Adviser. Accordingly, the loss of the services of the Investment Adviser and/or the Manager and/or CSPFM may have a material adverse effect on the future of the Company's business.

## PART I

### RISK FACTORS

**In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. If you are in any doubt about the action you should take, you should consult a professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

**The Directors believe the risks set out below to be the most significant for potential investors. The risks listed, however, do not necessarily comprise all those associated with an investment in the Company and are not intended to be presented in any assumed order of priority. In particular, the Company's performance may be affected by changes in legal, regulatory and tax requirements in any of the jurisdictions in which it or its subsidiary companies operate or intend to operate as well as overall global financial conditions.**

**Potential Shareholders should also take their own tax advice as to the consequences of their owning shares in the Company as well as receiving returns from it. Tax commentary in this document is provided for information only and no representation or warranty, express or implied, is given to Shareholders in any jurisdiction as to the tax consequences of their acquiring, owning or disposing of any shares in the Company and neither the Company, the Directors, the Manager, the Investment Adviser, Collins Stewart nor any Collins Stewart entity will be responsible for any tax consequences for any such Shareholder.**

#### **General**

An investment in the Ordinary Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment, or other investors who have been professionally advised with regard to investment, and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested). Such an investment should be seen as complementary to existing investments in a wide spread of other financial assets and should not form a major part of an investment portfolio. Investors should not consider investing in the Ordinary Shares unless they already have a diversified investment portfolio.

#### **AIM**

The Ordinary Shares will be admitted to AIM. An investment in shares quoted on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the Official List of the UK Listing Authority. The rules of AIM are less demanding than those of the Official List. Further, the London Stock Exchange has not itself examined or approved the contents of this document. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

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

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in Ordinary Shares on AIM may have limited liquidity.

In addition, the price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. These factors could include the performance of the Company's operations, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory or taxation changes and general economic conditions. The value of the Ordinary Shares will therefore fluctuate and may not reflect their underlying asset value.

### **Forward-looking statements**

All statements other than statements of historical facts included in this document, including, without limitation, those regarding the Company's financial position, business strategy, plans and objectives of management for future operations or statements relating to expectations in relation to shareholder returns, dividends or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance, achievements of or dividends paid by, the Company to be materially different from future results, performance or achievements, or dividend payments expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

These forward-looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto, any new information or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by law or any appropriate regulatory authority.

The potential investment opportunities referred to in this document cannot be guaranteed and it may be the case that only some or even none of these come to fruition.

### **New company**

The Company was incorporated on 27 February 2006 and has no operating history. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that the Company will not achieve its investment objective and that the value of a Shareholder's investment in the Company could decline substantially. There can be no assurance that the Company will be able to achieve the returns referred to in this document. The Company may be unable to find a suitable number of attractive opportunities to meet its investment objectives and those that are or have been identified may not be completed. Shareholders will be relying on the ability of the Investment Adviser (with the assistance of the Manager and other advisers) to identify, negotiate and structure the investments to be made by the Company.

### **Potential currency exchange rates risk**

The Company expects that its business will be conducted in jurisdictions that will generate revenue, expenses and liabilities in currencies other than Sterling. As a result, the Company will be subject to the effects of exchange rate fluctuations with respect to any of these currencies.

The Company has not hedged the exchange rate risk to which it will be subject between the date of this document and the point at which it exchanges the Sterling denominated net proceeds of the Placing into Euros, US Dollars or local Target Country currencies, and therefore the investment made by a placee pursuant to the Placing could be worth less following such exchange.

The Company will report its results of operations and its financial position in Sterling. Following Admission, the Ordinary Share price will be quoted on AIM in Sterling. The Company expects to invest primarily in US Dollars or Euros or local currency in the Target Countries. Accordingly, it expects to generate revenue in currencies other than Sterling but will declare its dividends in Sterling and the amount received by Shareholders will be an amount in Sterling. As a consequence, Shareholders will experience fluctuations in the Net Asset Value and the market price of their Ordinary Shares as a result of movements in the exchange rate between Sterling and US Dollars, Euros and any local Target Country currency. Such movements in the exchange rate may also adversely affect the amount of dividends paid. In addition, the amount of any dividends declared by the Company will be determined based on the results of the Company's operations.

Although US Dollars, Euros and local currencies of the Target Countries are freely convertible into other currencies, exchange rate fluctuations and currency devaluation could have a material effect on the Net Asset Value of the Company's property investments, which will be expressed in Sterling.

On an on-going basis, the Company does not intend to hedge the exchange rate risk between Sterling, and US Dollars, Euros and local currencies in the Target Countries.

### **EU risk**

Although it is currently anticipated that Romania and Bulgaria will gain entry into the EU in 2007, and that, following the commencement of accession talks by Turkey in October 2005, Turkey may gain entry by approximately 2015, this is not a certainty. If entry is denied or seriously delayed this is likely to threaten economic growth and political stability in these countries. This in turn may adversely affect the performance of the Ordinary Shares.

### **Possible adverse economic and political conditions**

The financial operations of the Company may be adversely affected by general economic conditions and particularly by economic conditions in the Target Countries. The returns that are likely to be achieved on an investment in property or land in the Target Countries will be materially affected by the political and economic climate in Eastern Europe, particularly in the Target Countries. In particular, changes in the rates of inflation and interest in the Target Countries may affect the income generated by, and capital value of, the Property Portfolio.

The property and land markets in which the Company intends to invest are relatively immature and the economies of the Target Countries are not as fully developed as those in Western Europe. Further, these countries carry risks of political, legal and economic instability which could adversely affect the Company's results or operations. The parliamentary elections in the Ukraine scheduled for March 2006, and the uncertainty surrounding the outcome of the vote at those elections, may impact upon the investment market in Ukraine in general. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including but not limited to nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange local currency into foreign currency or to repatriate foreign currency.

Further, a deterioration in the Western European economies can be expected to have an adverse effect on the economies of the Target Countries and potentially on property values and the level of rents in the Target Countries.

### **Corruption in the Company's target markets**

Corruption is a problem in the Target Countries. Corruption or any distortion of official processes within territories where the Company makes investments will continue to negatively affect those countries' economies and therefore could have an adverse impact on the Company's performance.

### **Earthquake and weather risk**

The Target Countries lie within seismically active regions. In particular, much of Turkey, including Istanbul and Izmir, lies on a seismic fault line. Istanbul suffered an earthquake in 1999. A destructive earthquake could adversely affect the Company's operations.

There have been recent incidences of devastation caused by extreme weather conditions in areas close to the Target Countries. Extreme weather conditions (and any natural disasters resulting therefrom) could adversely affect the Company's investments.

### **Risks of property ownership**

Investments in property may be difficult, slow or impossible to realise. The Ordinary Shares will be subject to the general risks incidental to the ownership of real or heritable property, including changes

in the supply of or demand for competing investment properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and landlord/tenant or planning laws, credit risks of tenants and borrowers and environmental factors. The marketability and value of any properties owned by the Company will, therefore, depend on many factors beyond the control of the Company and there is no assurance that there will be either a ready market for any properties held by the Company or that such properties will be sold at a profit or will yield a positive cash flow.

Changes in law relating to foreign ownership of property in any of the jurisdictions in which the Company invests might also have an adverse effect on the net returns from the Property Portfolio.

### **Property investment risk**

The performance of the Company would be adversely affected by a downturn in the property market in terms of capital value or weakening of rental markets. In the event of default by a tenant, the Company will suffer a rental shortfall and incur additional costs including legal expenses and costs of maintaining, insuring and re-letting the property. Any future property market recession could materially adversely affect the value of the properties.

Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as changes in its market value.

Rental income and the market value for properties are generally affected by overall conditions in the local economy, such as growth in GDP, employment trends, inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may impact demand for premises, especially for office space for commercial enterprises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors relevant to the real estate market, such as competition from other property owners and developers, the perceptions of prospective tenants on the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair or re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. In addition, the owner must meet certain significant expenditures, including operating expenses, even if the property is vacant.

Investments in property are relatively illiquid and more difficult to realise than investments in equities or bonds.

### **Land and property ownership rights**

Each Target Country has different laws and regulations (as well as tax provisions) relating to land and property ownership by foreign companies. Whilst the Company will use its reasonable endeavours to operate property owning structures that comply with such laws and regulations as well as with a view to mitigating the tax effect of local tax regulations, there can be no guarantee that in the future the Target Countries will not adopt laws and regulations which may adversely impact on the Company's ability to own and operate land and property. Accordingly, in such circumstances, the returns to the Company may be materially and adversely affected.

### **Controlling person liability**

The Company is expected to have controlling interests in some of its investments through special purpose companies, limited partnerships or other entities or may own such properties directly. The exercise of control over an entity (or the property itself) can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Company might suffer a significant loss.

### **Joint venture risk**

While the Company expects that most of its investments will be wholly owned (directly or indirectly) by the Company, from time to time the Investment Adviser may propose to the Board certain transactions in which the Company will not be the sole investor. Whilst the Investment Adviser has undertaken to propose only joint venture partners (whether investors or developers) whose investment rationale is comparable to the Company's, the Company's position may nonetheless be compromised by circumstances of the joint venture partner, such as bankruptcy, litigation, or potential disagreement on investment strategy.

### **Development risk**

The returns on the Ordinary Shares may be subject to the risks associated with the development of real estate projects. These risks may include the risk:

- relating to project financing. The release of bank financing will be staged and conditional on milestones in the development being reached. In the event that the development does not proceed as expected (due to unexpected factors such as landslip, accident, supplier default, planning or title disputes etc.), the bank may refuse to provide further financing. If the Company is unable to arrange alternative financing, it may not be possible to complete the development;
- that planning consents are not obtained, or are delayed significantly, or are granted subject to uneconomic conditions;
- that laws are introduced, which may be retrospective and affect existing building consents, which restrict development;
- that a development is significantly delayed or costs exceed budget due to unforeseen factors;
- of unforeseen construction constraints (including geological and archaeological factors);
- of title disputes, legal disputes with neighbouring land owners and legal disputes with architects, project managers and suppliers;
- that building methods or materials prove to be defective;
- that a construction company used on a development becomes insolvent, that it may prove impossible to recover compensation;
- that it takes longer to sign up tenants than expected; and
- of fraud on the part of service providers or suppliers used on a development.

### **Potential environmental liability**

Under various national and local laws and regulations, an owner of property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for the presence or removal of these substances. The owner's liability as to any property is generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Company's return from such investment.

### **Gearing**

The Company, either directly or through its subsidiary property-holding companies, is expected to be highly geared through borrowings, which will be secured on assets in the Property Portfolio. Where the cost of the Company's borrowings exceeds the return on the Company's assets, the borrowings will have a negative effect on the Company's performance. If the Company cannot generate adequate cash flows to meet debt service, it may suffer a partial or total loss of its capital. A relatively small movement in the value of the Property Portfolio or the amount of income derived from it may result in a disproportionately large movement, unfavourable as well as favourable, in the value of Ordinary Shares or interest or the amount of income received in respect thereof.

In the event that the Company enters into a bank facility agreement, such agreement may contain financial covenants. In particular, the agreement may require that the Company has assets exceeding a fixed percentage of the value of any loan drawn down. If the value of the Company's assets falls such that any such financial covenant is breached, or if any other covenant is breached, the Company may be required to repay the borrowings in whole or in part. In such circumstances the Company may be required to sell, in a limited time, part or all of the Property Portfolio, potentially in circumstances where there has been a downturn in property values generally, such that the realisation proceeds do not reflect the valuation of the investment properties.

There is no guarantee that the anticipated borrowing level of the Company will be achieved.

### **Impact of law and governmental regulation**

The Company and developers with whom the Company deals will need to comply with various national laws and regulations relating to planning, land use and development standards. The institution and enforcement of such laws and regulations could have the effect of increasing the expense and lowering the income or rate of return from, as well as adversely affecting the value of, the Property Portfolio. Changes in law relating to ownership of land could have an adverse effect on the value of Ordinary Shares. New laws may be introduced, which may be retrospective and affect environmental planning, land use and development regulations.

The legal systems of the various countries in which the Company invests may also not afford the Company the same level of certainty in relation to issues such as title to property-related rights as may be achieved in more developed markets. Enforcement of legal rights may prove expensive and difficult to achieve.

### **Tax related risk**

Certain countries may have tax regimes which may impose withholding or other taxes on the profits or other returns derived from the projects in which the Company has an investment. This tax may be non-recoverable. It is anticipated that the rates of withholding tax will vary across jurisdictions and will change from time to time which could have a material and adverse affect on the Company's performance.

The tax regimes applying in the UK and Guernsey may change, thereby affecting the Company's tax treatment in these jurisdictions. For further information, please refer to Part VI of this document.

### **Shareholder tax risk**

Shareholders should take their own tax advice as to the consequences of owning Ordinary Shares in the Company as well as receiving returns from it. In particular, Shareholders should be aware that ownership of shares in the Company can be treated in different ways in different jurisdictions. Due to the manner in which the Company may finance the acquisition of its property investments, a substantial proportion of the income of the Company may be interest income or derived from interest income.

### **Regulatory regime and permits**

The profitability of the Company will be in part dependent upon the continuation of a favourable regulatory climate with respect to its investments. The failure to obtain or to continue to comply with all necessary approvals, licences or permits, including renewals thereof or modifications thereto, may adversely affect the Company's performance, as could delays caused in obtaining such consents due to objections from third parties.

### **Valuation risk**

Property assets are inherently difficult to value as there is no liquid market or pricing mechanism. As a result, valuations are subject to substantial uncertainty. This uncertainty may be accentuated in the Target Countries as there may be fewer benchmarks available for valuation purposes than in, for

example, Western Europe. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the date of the valuation.

Shareholders should be aware that the Company intends to perform valuations of its assets on a semi-annual basis only. As a result, the Company's share price may not accurately reflect the value of its underlying assets between such valuations. For further information, please refer to the Company's valuation policy in Part IV of this document (Valuations).

### **Dividends**

Shareholders should note that payment of any future dividends will be at the discretion of the Board after taking into account various factors, including the Company's operating results, financial condition and current and anticipated cash needs.

The target dividends are illustrative and based on a number of assumptions which may not materialise. There can be no guarantee that the Company will generate the returns indicated nor that the target dividend will be paid. None of the returns should be taken as a forecast of profits. Payment of the target dividend is dependent on, *inter alia*, the Company becoming fully invested, the Placing being fully subscribed and the level of rental and other income generated from the properties acquired, investments made or joint ventures entered into by the Company. There is no guarantee that the Company will be fully invested within the 12 to 18 month time frame indicated.

The income from property investments will be denominated in US Dollars, Euros and local currencies of the Target Countries and, therefore, the Company is likely to have some exposure to variations in currency exchange rates which might affect the Company's ability to achieve its target dividend yield.

It is possible that not all of the total revenues recorded in the Group's consolidated financial statements will be available to the Company in the form of distributable profits from which to pay a dividend. The Directors may consider alternative means for making such distributions to Shareholders.

Dividend growth on the Ordinary Shares will depend principally on rental growth in the Property Portfolio.

### **Guernsey law**

The Company is a limited company incorporated under the Law. Guernsey law does not make a distinction between private and public companies and some of the protections and safeguards that investors may expect to find in relation to a public company under the Act are not provided for under Guernsey law.

### **Litigation risk**

Due to the relatively under-developed legal systems in some of the jurisdictions in the Target Countries, the Company may find it difficult, impossible or very costly to enforce the rights it may have under agreements it may enter into.

### **Concentration risk**

Certain property investments may represent a significant proportion of the Company's gross assets. As a result, the impact on the Company's performance and the potential returns to Shareholders will initially be more adversely affected if any one of the property investments performs badly than would be the case if the Company's portfolio of property investments was more diversified.

### **Dependence on Manager and Investment Adviser**

The Company is dependent on the diligence, skill and network of business contacts of the Investment Adviser and the senior management of the Manager and CSPFM. They, together with other investment professionals, will evaluate, negotiate, structure, realise, monitor and service the Company's investments. The Company's future success will depend on the continued service of the principals of

the Investment Adviser, the Manager and CSPFM. For more information, please refer to Part IV (“Management, Advice and Administration” under the sections – “Investment Adviser” and “Manager”) of this document. Whilst the Company has entered into contractual arrangements with the Investment Adviser, the Manager and CSPFM, the retention of the services of the Investment Adviser, the Manager and CSPFM cannot be guaranteed. Accordingly, the loss of the services of the Investment Adviser and/or the Manager and/or CSPFM may have a material adverse effect on the future of the Company’s business.

#### **Conflicts of interest**

The Investment Adviser has contractually agreed with the Company that, until the Company is at least 90 per cent. invested, it will not, without the Company’s prior consent, undertake any property acquisition and/or development activities in respect of property assets in any jurisdiction which falls within the investment objective and/or policy of the Company without offering the Company a right of first refusal in respect of the same. However, it is possible that once the Company is so invested, conflicts of interest may arise as a result of the directors of the Investment Adviser or the Investment Adviser itself acting for other companies or funds.

## PART II

### THE COMPANY

#### **Introduction**

Eastern European Property Fund Limited is a new closed-ended Guernsey registered company, which has been established to take advantage of opportunities that exist in the property markets of Turkey, Romania, Ukraine and Bulgaria. The Company's objective is to provide Shareholders with a high level of income and the potential for significant capital growth.

The Company intends to invest in a range of office, retail, industrial and residential properties in or around major urban centres in the Target Countries. It is expected that there will be an initial focus on office and retail property. Each investment will be made with a view to taking advantage of attractive yields, and where the Directors and the Advisers believe such investments to have the potential for capital appreciation.

The Company has appointed Collins Stewart Fund Management Limited as its manager to be responsible for the day-to-day management of the Property Portfolio. Collins Stewart Property Fund Management Limited, a property fund management company and a subsidiary of the Manager, will provide property management and advisory services to the Company. CSPFM manages a property portfolio, predominantly in the United Kingdom, with a market value of approximately £500 million, and over 1,100 tenants (as at 31 December 2005). It focuses on higher risk and management intensive properties but is experienced in dealing with a variety of property contracts.

The Company and the Manager have appointed Active Property Investments Limited as investment adviser (the "Investment Adviser") to source potential investment opportunities for the Company and to provide general property investment and management advice in the Target Countries. Through the Principals' network of local contacts in the Target Countries, which have been built up over the past 3 years, the Company believes that it can gain early access to a broader range of investment opportunities than may be typically available through international real estate consultants located in the Target Countries.

Further details on the Manager, the Investment Adviser and CSPFM are contained in Part IV of this document.

The share capital of the Company is denominated in Sterling and will consist of a single class of Ordinary Shares which are freely transferable and will be traded on AIM. The Company proposes to raise up to £20.00 million (before expenses) pursuant to the Placing.

The Company has no fixed life but, under the Articles, Shareholders will be given the opportunity to vote on the continuance of the Company at the annual general meeting to be held following the Company's seventh anniversary. If the resolution to wind up is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter.

#### **Borrowings policy**

In seeking to enhance returns for Shareholders, the Directors and Advisers believe that it would be beneficial for the Company to finance or refinance part of the acquisition cost of its investments through borrowings, as it is anticipated that higher returns will be achievable through the investments than the cost of such debt financing. Initially, it is expected that the Company will fund the whole of the acquisition cost of an investment itself at completion without the benefit of third party debt finance and only after completion will it seek to refinance part of the cost using third party debt funding. The Principals have existing relationships with a number of banks operating in the Target Countries which they believe would be willing to provide such financing and the Investment Adviser expects to be able to secure competitive financing for the financing or refinancing of property acquisitions. The Directors currently intend that following the acquisition of an investment, the Company, either directly or through its subsidiary property-holding companies, may borrow amounts equal to up to 70 per cent. of any single investment's purchase price. When the Company is fully invested, the Directors expect that up to 60 per cent. of the aggregate value of all investments may be

financed from third party debt financing. The Group may be required to use its investments as security for the borrowings it puts in place across the Property Portfolio.

### **Investment policy**

The Company intends to invest in a range of office, retail, industrial and residential opportunities in the Target Countries. The Company will primarily seek to invest in income producing assets in or around major urban centres in the Target Countries.

The Company's primary policy will be to provide the equity financing to purchase existing or newly built properties. The Company may also provide finance for the construction and development or refurbishment of properties, either wholly-owned by the Company or in conjunction with other investors.

The Company will have no investment restrictions in terms of levels of investment in different property classes or by country. It is expected that there will be an initial focus on office and retail property, followed by industrial and then residential property. The geographical emphasis is expected to be on Turkey, followed by Romania, Ukraine and then Bulgaria. There is no assurance that such a focus will be followed as any investment decisions will be taken based on market conditions at the time of investment.

It is expected that no single investment, at the time of its acquisition, will represent more than 20 per cent. of the Company's Gross Asset Value, although there is no guarantee that this will always be the case, particularly during the early life of the Company.

In recommending each property acquisition, the Advisers will take into account the following factors:

- location;
- marketability;
- legal and ownership structure;
- tenant profile, rental level versus market rates, and lease provisions;
- price, financing structure and leverage;
- projected return;
- profile of the Property Portfolio; and
- suitability of partners if entering into joint venture arrangements.

The Company intends to use one or more special purpose vehicles ("SPVs") to hold its property investments. The Company may use a single SPV for an individual property, but if it deems it appropriate may choose to use a single SPV to hold multiple properties. SPVs will be incorporated in such jurisdictions (e.g. Cyprus or Malta) as the Company deems appropriate taking into account taxation advice and investment management risks. The Company may own all or a part of the shares of the SPVs through which a property is held. The Company does not intend to invest in collective investment companies.

Any cash held by the Company may be held on deposit or invested in money market funds or other near cash investments.

### **Potential investment opportunities**

The Investment Adviser has already identified a number of potential opportunities for the Company that are in line with its investment objective. Neither the Company nor the Advisers have entered into any form of arrangement in respect of any of these properties. Some of the potential opportunities are:

- a modern 10 floor office building with parking for 130 cars in central Sofia, Bulgaria with a total lettable area of approximately 11,000 square metres;
- a modern office building in Sofia with a total lettable area of approximately 6,000 square metres;

- a modern office building in Bucharest, Romania with a total lettable area of approximately 8,000 square metres;
- a 6 storey office building with underground parking in Bucharest with a total lettable area of 4,600 square metres;
- prime retail premises located on one of Istanbul's main shopping streets, comprising some 20 offices, 14 shops and 3 restaurants, with a total lettable area of approximately 5,000 square metres;
- 3 storey prime retail premises located on one of Istanbul's main shopping streets, with a total lettable area of 1,173 square metres;
- office premises in a prime location in Kiev, Ukraine with a total lettable area of 3,000 square metres, including 700 square metres of parking; and
- an office building in a prime location in Kiev with a total lettable area of 1,775 square metres.

Occupancy within the above properties ranges from properties being fully let to awaiting letting as a result of current refitting and/or pending completion.

No guarantee is given that these potential investment opportunities will result in investments being made by the Company.

### **Investment process**

The investment process undertaken by the Manager and the Investment Adviser will be broadly as follows:

#### *Sourcing investments*

The Investment Adviser will source investment opportunities primarily through its network of local agents, its relationships with developers and brokers, and from the government or from the offices of international real estate consultancies in the Target Countries.

#### *Project analysis and Board approval*

Each potential investment will be assessed on, *inter alia*, pre-determined yield, growth and risk criteria. If the Investment Adviser and Manager are satisfied that the potential investment opportunity meets the then criteria, it will be approved for a more detailed analysis.

The Investment Adviser will then work with the Manager and agents in carrying out all appropriate due diligence on the potential opportunity. A legal search of the property and any related companies will be undertaken and an independent valuation obtained. A building survey and, if considered appropriate, an audit will also be undertaken.

A comprehensive project report will then be prepared which will be submitted to the Investment Committee, comprising representatives of the Investment Adviser and the Manager.

Subject to obtaining the unanimous approval of the Investment Committee, the project report will then be presented to the Board for final approval. Approval of the Board will be necessary before the Advisers can move to the next stage and complete negotiations with the vendor. Upon approval by the Board, the Company will be responsible for all third party costs necessary to complete the transaction regardless of whether completion actually takes place.

The Investment Committee will be a minimum of three and will include representatives of both the Manager and the Investment Adviser. The Investment Committee will initially comprise the Principals and Mr Locker. For biographical details of the members of the Investment Committee see Part IV of this document.

At the time any investment proposal is presented to the Board for approval, the Advisers will have considered the following:

- Land – status of tenure, land registration, planning approval, title, location;

- Refurbishment and development – planning permission, details of cost, timetable, list of available and qualified contractors and suppliers;
- Economics – investment appraisal providing indicative capital costs, operating costs and calculation of project internal rates of return;
- Finance – estimate of sources and costs of project debt from suitable lenders; and
- Legal – list of legal agreements required to complete the transaction, suitable list of advisers and indications of cost.

#### *Ongoing project monitoring*

The Manager will be responsible for the ongoing management of the Property Portfolio and the Manager has delegated some of these functions to the Investment Adviser.

#### **Risk management**

Set procedures for the regular inspection of the properties and the financial management of the Property Portfolio will be put in place by the Manager, including reconciliation of receipts, debt recovery procedures and continual review of all financial administration. Condition assessments will be made and reviewed for ongoing maintenance and/or critical repair programmes. This will include health and safety matters and all services.

#### **Joint ventures**

While the Company expects that most of its investments will be wholly owned (directly or indirectly) by the Company, from time to time the Investment Adviser may propose to the Board certain transactions in which the Company will not be the sole investor. The Investment Adviser has undertaken to propose joint venture partners (whether investors or developers) whose investment rationale is comparable to the Company's. The Investment Adviser will use its reasonable endeavours to negotiate appropriate joint venture terms such as approval rights over significant decisions and buy-sell rights, as well as investment terms that adequately address the risks associated with the specific geographic markets and property sector for investment and the current and anticipated capital markets environment.

#### **Currency issues**

The Company's property investments are expected to be made in US Dollars, Euros or local currencies in the Target Countries and the return on the Property Portfolio (sales proceeds and any net rental income) is expected to also be in US Dollars, Euros or local Target Country currencies. Non-property related costs incurred directly by the Company are expected to be primarily incurred in Sterling.

Any dividends or other distributions made to holders of Ordinary Shares will be converted into and paid in Sterling at prevailing exchange rates (net of costs).

The base currency of the Ordinary Shares for accounting purposes will be in Sterling. The Company does not intend to hedge the exchange rate risk between Sterling, and US Dollars, Euros and local currencies in the Target Countries.

#### **Dividend policy**

The level of regular dividends will depend on, *inter alia*, the rental and other income generated from the properties acquired, investments made or joint ventures entered into by the Company. Assuming the Placing is fully subscribed, the Company's target dividend yield is at least 7.5 per cent. at the Placing Price, once the net proceeds of the Placing have been fully invested in property in the Target Countries. The dividend target is illustrative and based on a number of assumptions (including but not limited to issue size, rental yield and property leverage) which may not materialise or be achieved. It should not be regarded as a profit forecast and no assurance is given that the Company will meet this objective. As stated above, the income from property investment will be denominated in US Dollars, Euros and local currencies of the Target Countries and, therefore, the Company is likely to have some exposure to

variations in currency exchange rates which might affect the Company's ability to achieve its target dividend yield.

It is possible that not all of the total revenues recorded in the Group's consolidated financial statements will be available to the Company in the form of distributable profits from which to pay a dividend. The Directors may consider alternative means for making such distributions to Shareholders.

To this end, the Company has passed a special resolution cancelling the amount which will stand to the credit of its share premium account following the issue of the Placing Shares. In accordance with the Law, the Directors intend to apply to the Royal Court in Guernsey for an order confirming such cancellation of the share premium account immediately following Admission. Subject to any undertaking to be given to the Royal Court in Guernsey, the reserve created on such cancellation will be available as a distributable reserve to be used for all purposes permitted by the Law, including the buy-back of Ordinary Shares and the payment of dividends.

Any dividend paid from such reserve would result in a reduction of the Company's capital. Before recommending any dividend, the Board will consider the capital position of the Company and the impact on such capital by virtue of paying that dividend.

The Board anticipates that the Company will pay dividends on a semi-annual basis but will also consider paying other dividends from time to time if they believe that the financial position of the Company justifies it.

#### **Repurchase of Ordinary Shares**

The Directors will consider repurchasing Ordinary Shares if they believe it to be in Shareholders' interests generally, but particularly in order to redress any imbalance between the supply of, and demand for, Ordinary Shares.

A special resolution (as referred to under "Dividend policy" above) and an ordinary resolution have been passed at an extraordinary general meeting of the Company, subject to the Placing becoming unconditional and the approval of the Royal Court in Guernsey, to cancel the amount standing to the credit of the Company's share premium account and to grant it authority to make market purchases of up to 14.99 per cent. of its own issued Ordinary Shares. A renewal of this authority will be sought from Shareholders at each annual general meeting of the Company.

No purchases of Ordinary Shares can be made by the Company until the cancellation of the share premium account (as referred to under "Dividend policy" above) has been approved by the Royal Court in Guernsey and the terms of any undertaking regarding creditors required by the Royal Court in Guernsey have been complied with, or until the Company has sufficient capital reserves to finance such purchases.

Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board.

Ordinary Shares which are purchased by the Company will be cancelled.

#### **Further share issues**

The Company's authorised share capital is such that further issues of Ordinary Shares can be made. There are no pre-emption rights for existing Shareholders on any such further issue. Subject to market conditions then prevailing and to all necessary consents and approvals being obtained, the Board may decide to make one or more further issues of Ordinary Shares for cash from time to time.

## PART III

### BACKGROUND TO THE TARGET COUNTRIES

**Certain information from this section has been sourced from third parties. The Company believes that this information has been accurately reproduced and, as far as the Company is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.**

The Directors and the Advisers believe that the strong economic growth experienced in the Target Countries in recent years and the financial and structural reforms in these countries which have underpinned this progress, provide an attractive environment in which to undertake property investment in the Target Countries.

#### Introduction

The Target Countries comprise a total population of approximately 150 million. The Directors and Advisers believe that the Target Countries represent an attractive investment opportunity for a number of reasons:

- the Target Countries have received less attention from international investors than their Central European counterparts;
- relative to Central European countries, the Target Countries have low GDP per capita;
- multinational businesses are entering the Target Countries seeking western standard accommodation which is currently generally limited in supply; and
- pro-business reforms and improvements in infrastructure are being implemented within growing economies.

As a result, greater opportunities generally exist in terms of yield, and potential for yield compression, as the market parameters of the Target Countries converge with those of Central and ultimately Western Europe.

#### Turkey

##### *Economic background*

In recent years, the performance of the Turkish economy has been transformed. During 2003-05, real GDP growth averaged 6.6 per cent. per year, annual inflation fell from 54 per cent. in 2001 to below 10 per cent. in 2004, real interest rates dropped sharply, and the government debt ratio fell significantly from 90.5 per cent. of Gross National Product to 63.5 per cent.

Based on the national programme for convergence with the EU (accession talks began in 2005) and the International Monetary Fund standby agreement, the Turkish government recently launched a series of macroeconomic reforms which included, among other things, a tightening of fiscal policy, state bank restructuring and privatisation.

<i>Turkey (pop 74.3m)</i>	<i>2003</i>	<i>2004</i>	<i>2005(e)</i>
GDP per capita (US\$)	3,360	4,170	4,860
Real GDP Growth	5.8%	8.9%	5.0%
Inflation (Dec on Dec) (CPI)	25.3%	8.6%	8.2%
3 Year Eurobond rates*	5.6%	4.3%	3.5%

Source: Datastream (Economist Intelligence Unit, Vienna Institute for International Economic Studies)

\*Pricing as of 9 Jan 2004, 31 Dec 2004 and 30 Dec 2005 respectively (Source: Bloomberg)

## ***Property market background***

### *Office*

At the end of 2004 the office stock in Istanbul totalled some 1.26 million square metres, one million of which were located in the European central business district and the remainder in the Asian central business district. Limited new supply and an improvement in demand saw a rise in office rents and a reduction in vacancies through 2005. With the Turkish economy expected to have another good year, the Investment Adviser believes that 2006 should see an increase in demand for office space and higher property values.

According to the DTZ Report for March 2005, prime office yields in Istanbul were 10 per cent. and the ratio of prime office stock per capita was 130 square metres. This ratio compared to a ratio of prime office stock per capita of 1,290 square metres in Warsaw and 1,970 square metres in London.

### *Retail*

Over 2004/2005, in addition to increasing demand for shopping centres, the high street retail demand in Istanbul also increased. This led to a significant decrease in vacancy rates in the main shopping areas of Istanbul, Istiklal Street and Nisantisi, where vacancy rates have decreased to almost zero.

### *Industrial*

Rents of industrial buildings vary throughout Istanbul. The Investment Adviser believes that location is an important factor as problems with Turkey's infrastructure and communications network continue to impact potential demand. A number of organised industrial zones have been developed on the outskirts of Istanbul which offer better infrastructure and significant management and tax advantages, and rents in these areas are higher as a result.

## **Romania**

### ***Economic background***

Romania has enjoyed strong GDP growth for five consecutive years. Inflation fell from 34 per cent. in 2001 to 8.9 per cent. in 2005. Interest rates have also declined steadily. Export growth has remained strong, fuelled by private investment and the depreciation of the currency, the Lei. The competitiveness of the enterprise sector has also been fuelled by productivity gains.

Since 2000, the government has implemented macroeconomic policies designed to stimulate growth. Disciplined fiscal policies, complemented by tight monetary policy and by strong advances in structural reform, have led to improved financial discipline in the enterprise sector. Romania has signed an accession treaty with the EU which is currently expected to lead to full accession in January 2007.

<i>Romania (pop 21.6m)</i>	<i>2003</i>	<i>2004</i>	<i>2005(e)</i>
GDP per capita (US\$)	2,620	3,262	4,170
Real GDP Growth	5.2%	8.3%	5.0%
Inflation (Dec on Dec) (CPI)	15.3%	11.9%	8.9%
3 Year Eurobond rates*	4.9%	3.3%	3.3%

Source: Datastream (Economist Intelligence Unit, Vienna Institute for International Economic Studies)

\* Pricing as of end Dec in the relevant year (Source: Bloomberg)

## ***Property market background***

### *Office*

The Bucharest office market has recently been characterised by steady growth, particularly in the northern part of the city. Total take-up in 2004 was approximately 30 per cent. higher than the preceding year, with vacancy rates dropping to a record 2 per cent. and much additional demand going unsatisfied. The Investment Adviser believes that as the market continues to develop, tenants' requirements will become more specific with building quality, parking and space efficiency being the key to attract the best tenants.

According to the DTZ Report for March 2005, prime office yields in Bucharest were 10 per cent. and the ratio of prime office stock per capita was 220 square metres.

### *Retail*

Romania's retail market has developed rapidly since 2003. Rising income levels in Bucharest and a growing availability of credit have been the main drivers of this development, which has attracted many international retailers such as Hugo Boss, the Body Shop and Nike to establish a presence within the country. More new entrants are exploring the market, and future growth is expected particularly in the south and west of Bucharest. In the medium term, the Investment Adviser believes that the north of Bucharest, which has the highest disposable incomes in the city, should also see an increase in the supply of shopping centres and hypermarkets.

### *Industrial*

The supply of modern industrial warehouses in Bucharest, despite two years of growth and development, is still limited. Whilst the area has a large amount of outdated warehousing, preferences are gradually evolving in favour of modern, well equipped, mostly build-to-suit facilities. The Investment Adviser believes that improvements to Romania's infrastructure, in particular the recent construction of a motorway between Bucharest and Romania's largest sea port, Constanta, will also help to improve the industrial market.

## **Ukraine**

### *Economic background*

Between 1999 and 2004, Ukraine's GDP growth totalled 50 per cent. At 12.1 per cent. in 2004, Ukraine's GDP growth was the highest in Europe. Improved financial discipline, substantial real depreciation of the Ukrainian currency (hryvnia) against Western currencies in 1998-99, more prudent fiscal and monetary policies, and a better business climate have all contributed to Ukraine's economic growth.

The presidential elections in 2004 and the "Orange Revolution" have facilitated Ukraine's development, with the new reform-minded government led by Mr Yushchenko seeking closer ties with Europe, a move that has been supported by the World Bank's 2004-2007 Country Assistance Strategy.

GDP growth is expected to slow in 2006 ahead of the parliamentary elections to be held in March.

<i>Ukraine (pop 46.4m)</i>	<i>2003</i>	<i>2004</i>	<i>2005(e)</i>
GDP per capita (US\$)	1,057	1,380	1,780
Real GDP Growth	9.6%	12.1%	3.2%
Inflation (Dec on Dec) (CPI)	5.2%	9.0%	13.6%
3 Year Eurobond rates*	7.0%	6.7%	5.6%

Source: Datastream (Economist Intelligence Unit, Vienna Institute for International Economic Studies)

\*Pricing as of end Dec in the relevant year (Source: Bloomberg)

### *Property market background*

#### *Office*

Supply of all standards of office accommodation within Kiev is limited, with western standard office space particularly in short supply. Whilst office construction is steadily increasing to cater for the considerable demand for quality, centrally located office space, most of the increased supply has been predominantly of class "B" or "C" office space created through the refurbishment of former industrial or Soviet-type administrative premises. The Investment Adviser believes that the lack of class "A" space, combined with an increase in demand, is gradually pushing rents higher.

According to the DTZ Report for March 2005, prime office yields in Kiev were 16 per cent. and the ratio of prime office stock per capita was 130 square metres.

### *Retail*

Although the retail sector in Kiev is highly fragmented and under-developed by western standards, it is currently seeing a high level of development activity. The relatively large population of the capital and its satellite towns, which have recently experienced rising incomes and growing optimism about the country's political future, provide retailers with an attractive consumer base, and this has led to a number of international chains entering the market.

### *Industrial*

A lack of suitable sites and difficulties in obtaining appropriate permits from the city authorities have traditionally hindered the development of industrial and warehousing space throughout the Ukraine. This, combined with an increase in demand, has led to a chronic shortage of industrial space that matches business requirements. Accordingly, rents for western standard warehousing schemes near to and with good road links to Kiev command healthy rental rates, which have increased markedly since 2003. The Investment Adviser believes that Ukraine's recent economic growth is expected to further improve the industrial market.

## **Bulgaria**

### *Economic background*

Bulgaria's macroeconomic policies and structural reforms have stimulated economic growth and increased stability. Real GDP growth has averaged 5.2 per cent. per annum during the years 2003-05, whilst inflation was reduced to 5 per cent. in 2005. The private sector now accounts for some 75 per cent. of the economy.

The progress of financial reforms has given an additional boost to economic activity. A number of the banks have been privatised, integration with external markets has expanded, foreign direct investment flows have increased and investor confidence has improved both domestically and externally.

Support by political parties for the country's EU accession, full membership of which is currently scheduled for January 2007, is effectively steering macroeconomic policies and structural reforms.

<i>Bulgaria (pop 7.6m)</i>	<i>2003</i>	<i>2004</i>	<i>2005(e)</i>
GDP per capita (US\$)	2,570	3,126	3,390
Real GDP Growth	4.5%	5.6%	5.5%
Inflation (Dec on Dec) (CPI)	2.4%	6.2%	5.0%
3 Year Eurobond rates*	3.9%	2.7%	2.8%

Source: Datastream (Economist Intelligence Unit, Vienna Institute for International Economic Studies)

\*Pricing as of end Dec in the relevant year (Source: Bloomberg)

Bulgaria's official currency is the Lev. It has maintained a currency board since 1997, tying the Lev to a fixed exchange rate with the Euro.

### *Property market background*

#### *Office*

The traditional "prime" office location is the downtown area but there are few growth opportunities in this area due to the relatively small size of the city and the presence of the government and financial services sector. The Investment Adviser believes that areas to the south/south east of the city are becoming increasingly attractive as they are only 10-15 minutes' drive from the centre.

According to the CB Richard Ellis Investment Report for mid-year 2005, prime office yields in Sofia were 10.3 per cent. and, according to the DTZ Report for March 2005, the ratio of prime office stock per capita was 140 square metres.

### *Retail*

Sofia's prime retail space is centred around Vitosha Boulevard, which is the main high street shopping area. The only large scale mall, Tsum, was developed by a foreign investor and sold to a Bulgarian property company in 2004. The Sofia Mall, totalling some 35,000 square metres, is expected to open in 2006.

### *Industrial*

The Investment Adviser believes that modern warehousing facilities are still in the early development stage in Bulgaria and the country therefore lags significantly behind other Central European markets. However, the Investment Adviser believes that the outlook for the industrial market in and around Sofia is positive. There is a shortage of modern industrial facilities for leasing. Demand is small but the Investment Adviser expects it to grow with the economy and expects the industrial and logistics market to mature with the expansion of the national highway network and development of the retail sector.

## PART IV

### MANAGEMENT, ADVICE AND ADMINISTRATION

#### Board of Directors

The Board consists of four non-executive directors, as follows:

#### *Charles Parkinson* (aged 51) (*Chairman*)

Charles Parkinson is the Deputy Minister in the Treasury and Resources Department of the States of Guernsey. A graduate of Cambridge, he is a Fellow of the Institute of Chartered Accountants in England and Wales and a qualified barrister. He was the founder, and until 2004, Chairman of the Guernsey office of PKF, having started his career as a chartered accountant at KPMG in London. He is currently Chairman of M&G Income Investment Company Limited and a Director of Dexion Equity Alternative Limited, Global High Yield Bond Trust Limited, Mapeley Limited and Teesland Advantage Property Income Trust Limited, all of which are listed on the London Stock Exchange. Mr. Parkinson is a resident of Guernsey.

#### *Richard Barnes* (aged 43)

Richard Barnes has 22 years' experience in the commercial property sector and is a Member of the Royal Institution of Chartered Surveyors. He has worked at Hillier Parker (CB Richard Ellis), Vigers (GVA Grimley) and Bernard Thorpe (DTZ) and is now a principal of BDP Barnes Daniels and Partners specialising in Channel Island commercial property consultancy. He is Past President of the Jersey Group of the RICS and holds a number of directorships of property companies and non-executive positions. Mr Barnes is a Jersey resident.

#### *Carol Goodwin* (aged 62)

Carol Goodwin has extensive experience in the finance industry and has held senior executive positions in several European and North American banks, managing businesses in London, Toronto, Montreal, Amsterdam, Nassau and Guernsey. She is currently a director of Investec Bank (Channel Islands) Limited where she was managing director between 1994-1996 and 1998-2001. Ms. Goodwin is a director of Yorkshire Guernsey Limited, the Guernsey subsidiary of the Yorkshire Building Society and is also a director of a number of investment funds including Dexion Trading Limited and Dalton Capital (Guernsey) Limited, the management company of an Irish-listed range of investment and hedge funds with over US\$3 billion under management. Ms. Goodwin is a Fellow of the Institute of Canadian Bankers, a Trust and Estate Practitioner and a Chartered Director of the Institute of Directors. Ms. Goodwin is a resident of Guernsey.

#### *Hugh Ward* (aged 53)

Hugh Ward was until January 2002 Chief Executive Officer of INVESCO UK Limited, a subsidiary of AMVESCAP PLC. He is now a consultant or non-executive director for a number of companies in the financial services sector including Forsyth Group, CSTIM, Performa, Coriolis, Old Mutual International and Wichford. Prior to joining INVESCO in 1996 he was Chairman and Managing Director of Capital House International Investment Management Ltd. Mr. Ward is a Member of the Securities Institute and is a resident of Jersey.

#### Corporate governance

As a Guernsey registered company, the Company is not required to comply with the Combined Code. However, the Directors recognise the value of the Combined Code and will take appropriate measures to ensure that the Company complies, as soon as practicable and to the extent appropriate given the Company's size and nature of business, with the Combined Code.

The Board has established an audit committee, which has formally delegated duties and responsibilities. The audit committee will meet at least twice a year and will be responsible for ensuring that the financial performance of the Company is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements, internal control systems and procedures and accounting policies.

The Board will review the level of fees paid to the Directors.

## **Manager**

Collins Stewart Fund Management Limited, a private limited company incorporated in Guernsey on 27 November 1998 has been engaged by the Company to act as Manager to assist in the management of the Company's investments pursuant to the Management Agreement (details of which are set out in paragraph 7.1 in Part VII of this document). Cash management on behalf of the Company will be undertaken by the Manager. The Management Agreement will be subject to termination by the Company or the Manager on twelve months' notice expiring no earlier than the third anniversary of Admission.

Collins Stewart Property Fund Management Limited, a property fund management company and a subsidiary of the Manager, will provide property management and advisory services. CSPFM was formed in 2001 out of CNC Properties Plc, a successful property company with a 100 year history. CSPFM, which has 36 staff in 5 locations, currently manages a property portfolio, predominantly in the United Kingdom, with a market value of approximately £500 million, and over 1,100 tenants (as at 31 December 2005). It focuses on higher risk and management intensive properties but is experienced in dealing with a variety of property contracts.

The Manager is licensed and regulated by the GFSC. Its registered number is 34684 and its registered address is 2nd Floor, No.1 Le Truchot, St. Peter Port, Guernsey GY1 4AE, Channel Islands.

The initial representative of the Manager who will serve on the Investment Committee is Bob Locker.

### ***Bob Locker***

Bob Locker is currently Group Property Director of CSPFM. He has 25 years of experience in real estate, specialising in the secondary/high-yielding sector of the market. He has gained extensive experience of all aspects of the commercial property market including direct investment, refurbishment programmes and full scale development. He currently manages a property portfolio of approximately £500 million on behalf of clients.

## **Fees and expenses**

### *Management fee*

The Manager will receive an annual management fee of 1.75 per cent. of the Gross Asset Value. The management fee will be payable quarterly in advance.

### *Performance fee*

In addition, the Manager will be entitled to a performance fee in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per Ordinary Share over the course of a 'performance period'. The first performance period begins on Admission and ends on 31 March 2007; each subsequent performance period is a period of one financial year. The Manager will become entitled to a performance fee in respect of a performance period only if two conditions are met.

First, a performance hurdle condition must be met. The performance hurdle is that Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeds an amount equal to the Placing Price increased at a rate of 7 per cent. per annum on a compounding basis up to the end of the relevant performance period.

The second condition to be met (a 'high watermark' test) is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period is higher than the highest previously recorded Adjusted NAV per Ordinary Share at the end of a performance period in relation to which a performance fee was last earned (or if no performance fee has been earned since Admission, is higher than the Placing Price).

If the performance hurdle is met, and the high watermark exceeded, the performance fee will be an amount equal to 20 per cent. of the excess of the Adjusted NAV per Ordinary Share at the end of the relevant performance period over the higher of (i) the performance hurdle; (ii) the Adjusted NAV per Ordinary Share at the start of the relevant performance period; and (iii) the high watermark (in each case on a per Ordinary Share basis), multiplied by the time weighted average of the number of

Ordinary Shares in issue in the performance period (or since Admission in the first performance period) (together, if applicable, with an amount equal to the VAT thereon).

The Manager will be responsible for the payment of all fees to the Investment Adviser.

### **Investment Adviser**

Active Property Investments Limited, a private limited company incorporated in Guernsey on 1 March 2006 has been engaged by the Manager and the Company to act as Investment Adviser pursuant to the Advisory Agreement (details of which are set out in paragraph 7.2 of Part VII of this document). The shareholders and directors of the Investment Adviser are Keiran Gallagher and Oliver Cadogan.

The Investment Adviser's activities will include the following:

- advice and recommendations on potential investment opportunities and on the implementation of the investment policy;
- research, investigation, evaluation and presentation of potential investment opportunities;
- assisting with negotiations in respect of and structuring property investments;
- monitoring of the Company's investments during the life of the Company;
- preparation of annual and quarterly reports on the Company's property investments; and
- evaluation and presentation of exit strategies from property investments made.

Keiran Gallagher, a director of the Investment Adviser, will manage the Investment Adviser's office in Istanbul in Turkey and, when established, the office in Kiev, Ukraine. Oliver Cadogan, a director of the Investment Adviser, will manage the office in Bucharest, Romania which will be established in 2006, and will also manage the Investment Adviser's activities in Sofia, Bulgaria. The Investment Adviser has undertaken to recruit local representation in Kiev and in Bucharest during 2006.

The shareholders and executive directors of the Investment Adviser are as follows:

#### ***Keiran Gallagher***

Keiran has over 18 years' investment management experience and has been investing in Central and Eastern European equities for over 14 years. He has been one of the UK's leading European equity managers with AAA ratings from Standard & Poor's and Forsythe Fund rating agencies and has won numerous performance awards.

He has been investing privately in property for over 10 years and in the emerging markets for the last 3 years. He has undertaken a number of property developments in different market segments and through different development stages in Turkey and Bulgaria.

#### ***Oliver Cadogan***

Oliver has spent the past three years as a Pan European Financial and Real Estate equity analyst at Legg Mason, with particular interest in Central and Eastern European countries. Prior to that he spent five years at PricewaterhouseCoopers in the Audit and Business Advisory units. He is a director and founding investor of the Bulgarian Ideas Group and Primavest Ltd, companies which have been established to take advantage of specific property investment opportunities in Bulgaria.

### **Conflicts management**

The Advisory Agreement prohibits the Investment Adviser (without the Company's prior consent) from acquiring assets or providing advisory or management services to third parties in respect of assets in any of the Target Countries for at least one year from Admission. The Agreement also provides that the Investment Adviser will ensure that the Company is given the right of first refusal in respect of all relevant investment opportunities available to the Investment Adviser until the Company is at least 90 per cent. invested. The Principals have undertaken to be bound by these same restrictions.

## **Valuations**

The Property Portfolio will be valued semi-annually by an internationally recognised property appraiser appointed by the Company from time to time. It is expected that DTZ will be appointed for this purpose shortly after Admission.

Investment properties held directly or indirectly by the Company will be valued on an open market basis. Properties in respect of which the Company has not completed will be valued in accordance with guidelines approved by the Board.

The Net Asset Value of the Ordinary Shares will be calculated half yearly based on the half yearly valuation of the Property Portfolio and calculated on the basis of IFRS. This valuation will be announced to the London Stock Exchange through a Regulatory Information Service.

The Manager may also, at its discretion, arrange for additional valuations from time to time if market conditions warrant it.

## **Financial information and reports**

The first accounting period of the Company will run until 31 March 2007 and, thereafter, accounting periods will end on 31 March in each year. It is expected that the audited annual accounts will be sent to Shareholders within five months of the year end to which they relate. Unaudited half yearly reports, made up to 30 September, are expected to be announced in December and sent to Shareholders in January of the next year. The first unaudited half yearly report will cover the period from incorporation to 30 September 2006.

The audited annual accounts and half yearly reports will also be available at the registered office of the Administrator and the Company.

The Company intends to adopt International Financial Reporting Standards.

## **Administration and Secretarial**

The Administrator is Collins Stewart Fund Management Limited, a limited company incorporated in Guernsey on 27 November 1998. The Administrator is licensed and regulated by the GFSC. The Administrator is a wholly owned indirect subsidiary of Collins Stewart Tullett Plc. The Administrator has its registered office at 2nd Floor, No.1 Le Truchot, St. Peter Port, Guernsey GY1 4AE.

The Administrator has been appointed to provide administration and secretarial services to the Company, including the determination and calculation of the Net Asset Value per Ordinary Share, as set out in the Administration Agreement. For these services the Administrator will be paid an annual fee of 0.1 per cent. per annum (subject to a minimum of £125,000) of the Gross Asset Value. The Administration Agreement is terminable by either party giving not less than 6 months' notice, such notice to expire at any time on or after the second anniversary of Admission.

Further details of the agreement between the Company and the Administrator are set out in paragraph 7.3 of Part VII of this document.

## **Custodian**

Collins Stewart (CI) Limited has been appointed as custodian. The Custodian is a limited company established under the laws of Guernsey and is licensed and regulated by the GFSC, the Jersey Financial Services Commission and the Isle of Man Financial Services Commission. Its registration number is 22761. It was incorporated on 20 June 1990 and its registered office is 2nd Floor, No. 1 Le Truchot, St. Peter Port, Guernsey GY1 4AE.

In its capacity as custodian, the Custodian will receive a fee from the Company of 0.05 per cent. per annum of the value of the Company's assets held in the custody of the Custodian. Additional fees will be payable for additional services provided by the Custodian. The Custody Agreement is terminable by either party giving not less than 3 months' notice, such notice to expire at any time on or after the first anniversary of Admission.

Further details of the agreement between the Company and Custodian are set out in paragraph 7.5 of Part VII of this document.

### **Registrar**

The Company has appointed Capita IRG (CI) Limited to provide registrars services in respect of the Company. For these services the Registrar will receive an aggregate initial minimum fee of £5,500 per annum. The Registrar Agreement is terminable by either party giving not less than three months' notice, such notice to expire at any time on or after the first anniversary of Admission.

Further details of this agreement between the Company and the Registrar are set out in paragraph 7.4 of Part VII of this document.

### **Other on-going operating costs**

The Company will bear its on-going operational expenses. These expenses include, but are not limited to:

- direct costs of investing and realising the assets of the Company, including dealing costs, any property tax stamp duty (or similar taxes) and registration fees;
- professionals' costs associated with investing and realising the assets of the Company, including the fees and expenses of surveyors, valuers, sales agents, consultants, tax advisers, brokers, lawyers and accountants (including introductory fees payable to any sales agents and corporate finance fees);
- the management fee and the performance fee payable to the Manager under the Management Agreement;
- fees and expenses of specialist property advisers, including letting agents and architects;
- legal and professional expenses which the Manager incurs whether in litigation on behalf of the Company or in connection with the ongoing administration of the Company or otherwise;
- the cost of borrowings incurred for the Company (including up front arrangement fees payable to lenders in return for providing loan facilities and interest payable in respect of the borrowings);
- Directors' fees and expenses;
- audit costs;
- taxes and duties imposed by any fiscal authority and any other governmental fees;
- costs of valuing and pricing assets and of publishing share prices and other notices in the financial press;
- expenses of publishing reports, notices and proxy materials to Shareholders;
- expenses of convening and holding meetings of Shareholders;
- expenses of preparing, printing and/or filing all reports and other documents relating to the Company including placement memoranda, explanatory memoranda, marketing documents, annual, semi-annual and extraordinary reports required to be lodged with all authorities having jurisdiction over the Company;
- expenses of making any capital distributions; and
- insurance premiums (including insurance for members of the Board).

## PART V

### PLACING, ADMISSION AND RELATED MATTERS

#### **The Placing and use of proceeds**

Collins Stewart has undertaken to use its reasonable endeavours to place with investors up to 20,000,000 Ordinary Shares, as agent for the Company, at the Placing Price.

The Placing, which is not being underwritten, is conditional upon the admission of the Ordinary Shares to trading on AIM by 23 March 2006, or such later time as Collins Stewart and the Company may agree, but in any event not later than 30 March 2006.

The Placing of the Ordinary Shares on behalf of the Company is intended to raise approximately £20.00 million before expenses. Assuming the Placing is fully subscribed, the expenses of Admission and the Placing payable by the Company are estimated to be approximately £0.91 million and the net proceeds of the Placing are estimated to be approximately £19.09 million.

The Company intends to use the net proceeds of the Placing of the Ordinary Shares to provide working capital for the operations of the Company and to invest in property in the Target Countries.

Based on current market conditions and in the absence of unforeseen circumstances, the Investment Adviser anticipates that the Company should be fully invested within 12 to 18 months of Admission, although there can be no guarantee of this. Pending investment, the net proceeds may be held on deposit or invested in money market funds or near cash investments.

Proceeds of the Placing should be received by Collins Stewart on or before 23 March 2006. CREST accounts will be credited on the date of Admission and it is anticipated that certificates in respect of the Ordinary Shares will be despatched within 10 business days of such date, in the week commencing 3 April 2006. Pending receipt by Shareholders of definitive share certificates, the Registrar will certify any instruments of transfer against the register.

#### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The Articles of the Company permit the holding of Ordinary Shares under the CREST system. All the Ordinary Shares will be in registered form and no temporary documents of title will be issued.

The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares will commence on 23 March 2006. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

#### **Risk factors**

Certain risk factors in relation to the Company and its business are brought to your attention in Part I of this document.

#### **Taxation**

Information regarding United Kingdom and Guernsey taxation with regard to potential Shareholders is set out in Part VI of this document. If you are in any doubt as to your tax position, you should consult your professional adviser immediately.

**Duration**

Under the Articles Shareholders will be given the opportunity to review the future of the Company at appropriate intervals. Accordingly, at the annual general meeting of the Company held following the seventh anniversary of the Company's incorporation, an ordinary resolution will be proposed that the Company ceases to continue as presently constituted. If the resolution is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter. If the resolution is passed, the Directors will be required to formulate proposals to be put to Shareholders to reorganise, unitise, reconstruct or wind up the Company.

**Further information**

Your attention is drawn to the additional information set out in Parts VI to IX of this document.

## PART VI

### TAXATION

*The following information, which relates only to UK and Guernsey taxation, is applicable to the Company and to persons who are resident or ordinarily resident in the UK and who hold Ordinary Shares as investments. It is based on the law and practice currently in force in the UK and Guernsey. The information is not exhaustive and, if potential investors are in any doubt as to their taxation position, they should consult their professional adviser without delay. Investors should note that tax law and interpretation can change and that, in particular, the levels and bases of, and reliefs from, taxation may change and that changes may alter the benefits of investment in the Company.*

#### **UK taxation**

##### *The Company*

It is the intention of the Directors to conduct the affairs of the Company so that the central management and control of the Company is not exercised in the United Kingdom and so that the Company does not carry out any trade in the United Kingdom (whether or not through a permanent establishment situated there). On this basis, the Company should not be liable for United Kingdom taxation on its income and gains other than certain income deriving from a United Kingdom source.

##### *UK Shareholders*

Shareholders who are resident in the United Kingdom for tax purposes may, depending on their circumstances, be liable to United Kingdom income tax or corporation tax in respect of dividends paid by the Company whether directly or by way of reinvestment of income.

- (a) In the case of those Shareholders who are individuals or otherwise not within the charge to corporation tax, capital gains tax may be payable on a disposal of Ordinary Shares. Taper relief may be available to reduce the amount of any chargeable gain on disposal. No indexation allowance will be available to such holders. Individual Shareholders are entitled to an annual exemption from capital gains. For the 2005/2006 tax year this is £8,500.

Shareholders within the charge to UK corporation tax may be subject to corporation tax on capital gains in respect of any gain arising on a disposal of Ordinary Shares. Indexation allowance may apply to reduce any chargeable gain arising on disposal of the Ordinary Shares but will not create or increase an allowable loss.

It is not anticipated that the Company would be regarded as a close company if it were resident in the UK. Therefore, capital gains realised by the Company should not be attributed to Shareholders under section 13 of the Taxation of Chargeable Gains Act 1992.

- (b) The Directors intend to manage the Company's affairs such that it should not be regarded as a collective investment scheme for the purposes of section 235 Financial Services and Markets Act 2000. On this basis a shareholding in the Company should not be regarded as a material interest in an offshore fund for the purposes of Sections 756A to 764 (as amended by the Finance Act 2005) of the Income and Corporation Taxes Act 1988 (the "Taxes Act"). On this basis, gains realised on such holdings should not be subject to tax as income under that legislation.
- (c) A UK resident corporate Shareholder who, together with connected or associated persons, is entitled to at least 25 per cent. of the Ordinary Shares should note the provisions of the controlled foreign companies legislation contained in Sections 747 to 756 of the Taxes Act.
- (d) The attention of individuals ordinarily resident in the United Kingdom is drawn to the provisions of section 739 to 756 of the Taxes Act (and the proposed amendments published by HM Revenue and Customs on 5 December 2005) which may render such individuals liable to tax on the income of the Company (taken before any deduction for interest) in certain circumstances.
- (e) The attention of UK residents and domiciled investors is drawn to Section 703 of the Taxes Act under which HM Revenue and Customs may seek to cancel tax advantages from certain transactions in securities.

##### *Non-UK Shareholders*

Shareholders who are not resident or ordinarily resident (or temporarily non resident) in the United Kingdom and do not carry on a trade, profession or vocation through a branch, agency or other form of permanent establishment in the United Kingdom with which the Ordinary Shares are connected will not normally be liable to United Kingdom taxation on capital gains arising on the sale or other disposal of their Ordinary Shares. However, non-UK Shareholders will need to take specific professional advice about their individual tax position.

### *Individual Savings Accounts and Personal Equity Plans*

Ordinary Shares in the Company will not be eligible to be held in the stocks and shares component of an ISA or an existing PEP.

### *Self-invested Personal Pension Schemes (“SIPPs”)*

In accordance with HM Revenue and Customs Guidance Note IR76, the Personal Pension Scheme (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001 provide that investments which may be held directly or indirectly for the purposes of a SIPP include shares which are dealt in on AIM. From 6 April 2006, shares which are dealt with on AIM may be held for the purposes of a SIPP where such shares are considered suitable investments by the scheme administrator.

### *Stamp Duty and Stamp Duty Reserve Tax*

The following comments are intended as a guide to the general UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”) position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services to whom special rules apply. No UK Stamp Duty or SDRT will be payable on the issue of the Placing Shares. UK Stamp Duty (at the rate of 0.5 per cent., rounded up where necessary to the next £5, of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Ordinary Shares executed within, or in certain cases brought into, the UK. Provided that Ordinary Shares are not registered in any register of the Company kept in the UK any agreement to transfer Ordinary Shares should not be subject to SDRT.

**Any person who is in any doubt as to his/her tax position or requires more detailed information than the general outline above should consult his/her professional advisers.**

### **Guernsey taxation**

The Company is exempt from liability to Guernsey Income Tax. Exemption must be applied for annually and will be granted, subject to the payment of an annual fee which is currently fixed at £600, provided that the Company continues to qualify under the applicable legislation for exemption. It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify. No capital gains or similar taxes are levied in Guernsey on realised or unrealised gains resulting from the Company’s investment activities.

Shareholders will receive dividends without deduction of Guernsey Income Tax. The Company will be required to notify the Administrator of Income Tax of amounts paid to Guernsey residents by way of dividend. Furthermore, the Company will be required to make a return to the Administrator of Income Tax, on request, of the names, addresses and shareholdings of Guernsey resident Shareholders.

Shareholders will not suffer any liability to capital gains tax in Guernsey. There are no death duties, capital, inheritance, capital gains, gifts, sales or turnover taxes levied in Guernsey in connection with the acquisition, holding or disposal of Ordinary Shares. No stamp duty or stamp duty reserve tax is chargeable in Guernsey on the issue, transfer, conversion or redemption of Ordinary Shares.

On 25 November 2002, the Advisory & Finance Committee of the States of Guernsey (“A&F”, now the States of Guernsey Policy Council) announced the proposed framework for a structure of corporate tax reform within an indicative timescale. In the announcement, the A&F stated that any specific recommendations for change would only be placed before the Guernsey States of Deliberation after further consultation with local businesses and review of taxation in other financial centres.

The relevant parts of the announcement are as follows:

- (a) The general rate of income tax paid by Guernsey companies will be reduced to 0 per cent. in respect of the tax year 2008 and subsequent years.
- (b) It is intended that personal income tax will be maintained at 20 per cent. and VAT will not be introduced.
- (c) The A&F has stated that there is no intention to introduce capital gains tax, inheritance, gift or other wealth taxes.

The foregoing summary does not address tax considerations which may be applicable to certain shareholders under the laws of jurisdictions other than Guernsey. The Company has no present plans to apply for any certifications or registrations, or to take any other actions under the laws of any jurisdictions which would afford relief to local investors therein from the normal tax regime otherwise applicable to an investment in Ordinary Shares. It is the responsibility of all persons interested in purchasing the Ordinary Shares to inform themselves as to any income or other tax consequences arising in the jurisdictions in which they are resident or domiciled for tax purposes, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposition of the Ordinary Shares.

## PART VII

### ADDITIONAL INFORMATION

#### 1. Directors' responsibility

The Directors, whose names are set out in Part IX of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company

- 2.1 The Company was incorporated on 27 February 2006 with limited liability in Guernsey under the Law with registered number 44424. The Company has an unlimited life.
- 2.2 The Company's registered office and its principal place of business are in Guernsey and are located at 2nd Floor, No. 1 Le Truchot, St Peter Port, Guernsey, GY1 4AE.
- 2.3 Save for its entry into the material contracts summarised in paragraph 7 of this Part VII and certain non-material contracts, since its incorporation, the Company has not carried on business nor incurred borrowings.
- 2.4 For statutory purposes under the provisions of the Law, and in accordance with the Articles, the Company may not proceed to allotments unless a minimum of two shares has been subscribed for.

#### 3. Share capital

- 3.1 At incorporation the authorised share capital of the Company was £2,000,000 divided into 200,000,000 Ordinary Shares of 1p each of which two were issued as subscriber shares to the two subscribers to the Memorandum and Articles.
- 3.2 The authorised share capital and the maximum issued share capital of the Company (all of which will be fully paid-up) immediately following the Placing will be as follows:

	<i>Authorised</i>		<i>Issued*</i>	
	<i>Number of</i>		<i>Number of</i>	
	<i>Ordinary</i>	<i>£ Nominal</i>	<i>Ordinary</i>	<i>£ Nominal</i>
	<i>Shares</i>		<i>Shares</i>	
Ordinary Shares	200,000,000	£2,000,000	20,000,000	£200,000

*\* Assuming the Placing is fully subscribed.*

- 3.3 By an ordinary resolution dated 13 March 2006 the Company took authority, in accordance with clause 5 of the Companies (Purchase of Own Shares) Ordinance 1998 (the "Ordinance"), to make market purchases of fully paid Ordinary Shares, provided that the maximum number of Ordinary Shares authorised to be purchased shall be 14.99 per cent. of the issued ordinary share capital of the Company issued pursuant to the Placing. The Company is permitted to fund the payments for purchases of Ordinary Shares in any manner permitted by the Ordinance. Such authority shall expire at the annual general meeting of the Company in 2007 unless such authority is varied, revoked or renewed prior to such date by a special resolution of the Company in general meeting.
- 3.4 By a special resolution dated 13 March 2006 it was resolved that, conditional on the Placing becoming unconditional and the approval of the Royal Court in Guernsey (the "Court"), the amount standing to the credit of the share premium account of the Company following completion of the Placing be cancelled and the amount of the share premium account so cancelled be credited as a distributable reserve to be established in the books of account of the Company which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Law) are able to be applied, including the purchase of the Company's own shares and payment of dividends. In deciding whether to give its confirmation, the Court will be concerned to protect the interests of any creditors of the Company as at the date the reduction takes effect. The Court will require all such creditors to have been paid or to have consented to the reduction. Until the Court has confirmed the reduction of the share premium account (and the terms of any undertaking regarding creditors required by the court to be complied with), the Company will only be able to distribute dividends out of existing distributable profits and, to the extent permitted by the Ordinance, to repurchase Ordinary Shares out of existing distributable profits or the proceeds of a fresh issue of shares.

- 3.5 In accordance with the power granted to the Directors by the Articles, it is expected that the Ordinary Shares to be issued under the Placing will be allotted (conditional upon Admission) pursuant to a resolution of the Board to be passed shortly before Admission. There are no provisions of Guernsey law equivalent to sections 89 to 96 of the Companies Act 1985 of England and Wales which confer pre-emption rights on existing Shareholders in connection with the allotment of equity securities for cash.
- 3.6 The liability of Shareholders is limited to the amount payable in respect of Ordinary Shares held.
- 3.7 The Ordinary Shares carry the right to vote at general meetings and the entitlement to receive any dividends and surplus assets of the Company on a winding-up.
- 3.8 Save pursuant to the Placing and for the subscription of the two Ordinary Shares referred to above, since the date of incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commission, discounts, brokerages or other special terms have been granted by the Company in connection with the issue of any such capital.
- 3.9 No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.10 As of the date of this document, the Company has no listed or unlisted securities not representing share capital.

#### **4. Directors' and other interests**

- 4.1 The maximum amount of remuneration payable to the Directors permitted under the Articles is £200,000 in aggregate in any financial year.
- 4.2 It is estimated that the aggregate emoluments (including benefits in kind and pension contributions (of which none is to be made)) of the Directors for the period ending 31 March 2007 will amount to no more than £95,000.
- 4.3 The Directors were appointed as non-executive directors by letters dated 28 February 2006 that state that appointment and any subsequent termination or retirement shall be subject to the Articles. Save as described above, there are no existing or proposed service contracts between any of the Directors and the Company.
- 4.4 There are no contracts entered into by the Company in which the Directors have a material interest.
- 4.5 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.
- 4.6 No Director has any interest in any transactions which are or were unusual in their nature or significant to the business of the Company and which have been effected by the Company since incorporation or have been effected by the Company since incorporation and remain in any way outstanding or unperformed.
- 4.7 No Director (nor any member of a Director's family) has had a related financial product (as defined in the AIM Rules) referenced to Ordinary Shares.
- 4.8 Based on the intentions of the Directors (and persons connected with the Directors) to subscribe under the Placing, the Directors (and persons connected with the Directors) are expected to hold, following Admission, the number of Ordinary Shares set out below:

<i>Name</i>	<i>Ordinary Shares*</i>	
	<i>Number</i>	<i>%</i>
Charles Parkinson	10,000	0.05
Hugh Ward	15,000	0.08

*\* Assuming the Placing is fully subscribed*

In accordance with the lock-in arrangements contained in the AIM Rules, the Directors have agreed not to dispose of their securities for a period of one year from the date of Admission.

Save as set out in this sub-paragraph, no Director has any interest in the share capital of the Company nor has any person connected with any Director (so far as is known, or who could with reasonable diligence be ascertained by each Director) an interest in the share capital of the Company or with any options in respect of such capital.

- 4.9 The Company is not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control of the Company.

- 4.10 Save as set out below, the Company is not aware of any person holding directly or indirectly more than 3 per cent. of the Company's issued share capital or any person who will hold, directly or indirectly, more than 3 per cent. of the Company's issued share capital after Admission\*

<i>Name</i>	<i>Ordinary Shares*</i>	
	<i>Number</i>	<i>%</i>
Brooks MacDonald	770,000	3.9
Charles Stanley	1,695,000	8.5
Collins Stewart	2,950,000	14.8
Credit Suisse	1,200,000	6.0
GLG Partners	2,500,000	12.5
Insight Investment	3,000,000	15.0
Montgomery Oppenheim	1,000,000	5.0
NCL Smith & Williamson	769,000	3.8
Rathbone Investment Management	1,407,000	7.0
Reliance Mutual	600,000	3.0

\* Assuming the Placing is fully subscribed

- 4.11 The Company will purchase directors' and officers' liability insurance for the benefit of the Directors.
- 4.12 No Director has any unspent convictions relating to indictable offences, has been bankrupt or has made, or been the subject of, any individual voluntary arrangement.
- 4.13 None of the Directors has been a director of any company at the time of or within twelve months preceding the date of its receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors. None of the Directors has been a partner of any partnership at the time of or within twelve months preceding the date of its compulsory liquidation, administration or partnership voluntary arrangement or the receivership of any assets of such partnership nor have any of their assets been the subject of receivership.
- 4.14 None of the Directors has been publicly criticised by any statutory or regulatory authority or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 4.15 The directorships held by each of the Directors over the five years preceding the date of this document and the partnerships in which they have been partners in the five years preceding the date of this document are as follows:

	<i>Current</i>	<i>Past</i>
<b>Richard Barnes</b>	Hilltop Estates Limited	BFS Managed Properties Limited
	Hilltop Estates Retirement Benefit Self Administered Scheme Limited	BFS Managed Properties Securities Limited
	Swoffer Barnes Commercial Limited	BFS Managed Properties Holdings Limited
	Swoffers Limited	MSREF (Jersey) Limited
	Vega Limited	MSREF (Jersey) I Limited
	John Brown (St Brelade) Limited	MSREF (Jersey) II Limited
	Ansoll Estates Holdings Limited	MSREF (Jersey) III Limited
	Ansoll Estates Investments Limited	MSREF (Jersey) IV Limited
	Ansoll Estates Investments Holdings Limited	MSREF (EIQ) Limited
	Invesco UK Property Income Trust Limited	MSREF (EIQ) I Limited
	Invesco PIT Limited	MSREF (EIQ) II Limited
	Standard Life Investments 2005 (Jersey) Limited	MSREF (EIQ) III Limited
	Pinesgate Investment Company Limited	Bracknell (Amen Corner) Investment Company Limited
	The Darien Senior Trustee Company Limited	MSREF (EIQ) IV Limited
	The Apus Junior Trustee Company Limited	Daiwa Healthcare Property Investment Company Limited
	The Apus (No3) Junior Trustee Company Limited	Weir Limited
	The Apus (No4) Junior Trustee Company Limited	Grenville Property Management Limited
	The Apus (No5) Junior Trustee Company Limited	Allanridge Limited
	AAIM Property Fund 1 Limited	Moorfield plc
		Lagoa Trust Limited
	Hilltop Property Management Limited	
	The Apus (No6) Junior Trustee Company Limited	

Crawley Manager Jersey Limited  
Hardwick Investment Co Limited  
Bishopsgate Investment Co Limited  
0 Twelve Estates Limited  
25 North Colonnade Limited  
250 Bishopsgate (Holdings) Limited

*Current*

**Carol  
Goodwin**

Curlew Group Holdings Limited  
Dalton Capital (Guernsey) Limited  
Melchior Japan Fund 002 Limited  
General Holdings Limited  
Investec Bank (Channel Islands)  
Nominees Limited  
Premier Structured Plans Limited  
The Dejima Fund Limited  
Yorkshire Guernsey Limited  
Episode Inc  
Episode L.P.  
Stratton Street PCC Limited  
Arab Bank Fund Managers (Guernsey)  
Limited  
AB International Fund Limited  
AB Alternative Strategies Fund PCC  
Limited  
AB Asia Pacific Growth Fund Limited  
Dexion Trading Limited  
Investec Bank (Channel Islands) Limited  
(previously Guinness Mahon Guernsey  
Limited)  
Curlew Investments Limited

*Current*

**Hugh Ward**

The Arrakis Fund Limited  
AlphaGen Pyxis Fund Limited  
AlphaGen Giauzur Fund Limited  
AlphaGen Perseus Fund Limited  
AlphaGen Eltanin Fund Limited  
AlphaGen EtaCas Fund Limited  
AlphaGen Tenro Fund Limited  
BNY Trust Company Limited  
The Bank of New York Trust and  
Depositary Company Limited  
Cayzer Continuation Limited  
CIB Partners Limited (Advisory Board)  
Coriolis Capital Limited  
CSTIM Limited  
Forsyth Alternative Income Fund Limited  
Forsyth Alternative Strategies Series  
Limited  
Forsyth Global Commodity Fund Limited  
Forsyth Diversity Fund Limited  
Forsyth Equi-Beta Fund Limited  
Forsyth Financial Management Limited  
Forsyth Funds Plc  
Forsyth Investments International Limited  
Forsyth Leveraged Diversity Fund Limited  
Forsyth Managed Strategies  
Forsyth Partners Group Holdings Limited  
Forsyth Partners (CI) Limited  
Forsyth Partners Limited  
Forsyth Global Property Fund Limited  
Invesco Leveraged High Yield Fund Ltd  
Maga Smaller Companies Fund Limited

The Apus (No7) Junior Trustee Company  
Limited  
The Apus (No8) Junior Trustee Company  
Limited  
First Croatia Properties Limited

*Past*

Finch Management & Marketing Ltd.  
Invego Belgium SA/N.V.  
Investec Mauritius BV  
Investec (Overseas Holdings) BV  
Investec Bank (Channel Islands) Insurance  
Management Services Limited  
The Finch Fund Limited  
The Finch Innovation Fund Limited  
Investec (USA) BV  
Investec Investment Management Services Ltd  
PAI Europe III General Partner Limited  
PAI Europe IV GP Limited  
Oceanic Bank and Trust  
New World Trustees (Bahamas) Limited  
New World Trust Corp.  
Guinness Mahon Trustees (Guernsey)  
Limited  
Guinness Mahon & Co. Limited  
CTC-FF  
CTC-CP  
Canada Trustco International Limited  
Canada Trust Bank NV  
Canada Trust BV

*Past*

Asset Management Investment Co plc  
The Baynard Fund (Euro) Ltd  
Atlantic Wealth Management Trust Int.  
Limited  
CTC (Guernsey) Limited  
GT Emerging Markets Bond Fund PLC  
GT Global Fund Management Ltd  
Forsyth Partners Int. Limited  
INVESCO Asset Management (Jersey)  
Limited  
INVESCO Asset Management Ireland  
Holdings Limited  
INVESCO Asset Management Ireland  
Limited  
INVESCO European Warrant Fund  
Asia Tiger Warrant Fund  
(liquidated 12 May 2000)  
GT Global Fund Management Ltd  
GT Taiwan Fund Limited  
INVESCO Administration Services Limited  
INVESCO Asset Management Limited  
INVESCO Fund Managers Limited  
INVESCO Global Distributors Limited  
INVESCO Global Investment Funds Limited  
INVESCO GT Asset Management Nominees  
Limited  
INVESCO GT Continental European Fund  
INVESCO GT Investment Fund  
INVESCO GT US Smaller Companies Fund  
INVESCO GT SICAV  
INVESCO GT Taiwan Growth Fund

Old Mutual Fund Managers (Guernsey) Limited  
Old Mutual International (Guernsey) Limited  
Performa Consultants (UK) Limited  
Wichford Plc  
Wichford Southampton Limited

INVESCO International (Guernsey) Limited  
INVESCO International (Jersey) Limited  
INVESCO International (Nominees) Limited  
INVESCO International (Southern Africa) Limited  
INVESCO International Limited  
INVESCO International Private Portfolio Management Limited  
INVESCO Leveraged High Yield Fund Limited  
INVESCO Maximum Income Fund  
INVESCO Maximum Income Management S.A.  
INVESCO Pensions Limited  
INVESCO Private Portfolio Management Limited  
INVESCO Properties Limited  
INVESCO Trustees (Jersey) Limited  
Investment Fund Administrators Limited  
Nippon Warrant Fund  
ODT Limited  
Old Mutual Life Insurance Co. (S.A.) Limited  
Perpetual Administration Limited  
Perpetual plc  
Perpetual Portfolio Management Limited  
Perpetual Unit Trust Management Limited  
The East Europe Development Fund Limited  
TWT Affirmative Limited

*Current*

**Charles  
Parkinson**

Cabernet Limited  
Dexion Equity Alternative Limited  
Global High Yield Bond Trust Limited  
M&G Income Investment Company Limited  
Mapeley Limited

*Current*

TAPP Property Limited  
Teesland Advantage Property Income Trust Limited  
Universal Insurances PCC Limited

*Past*

**Charles  
Parkinson**

Abanilla Investments Limited  
Absolute Investments Limited  
AGW Holdings Limited  
Alben Investments Limited  
Alchemist & Co Limited  
Alight Investments Limited  
Allermuir Limited  
Anchorage Group Limited  
Anglo Normanic Enterprise Limited  
Annabelle Investments Limited  
Appleyard Investments Limited  
Arcade Properties Limited  
Arla-jay Limited  
Aser Limited  
Asporina Holdings Limited  
Asporina Investments Limited  
Avaglan Limited  
Avalon Health Care Limited  
Avenue Holdings Limited  
Avid Investments Limited  
B&J Props Limited  
Babsons Investments Limited  
Batcombe Limited  
Beatrix Investments Limited  
Bebec Business Limited

*Past*

Leslie Holdings Limited  
Letaur Development Limited  
Lewes Investments Limited  
Linsha Limited  
Loire Holdings Limited  
Longfellow International Limited  
Longstone Stud Limited  
Lorient Shipping Limited  
Lot Investments Limited  
Maddox Consulting Limited  
Marlow Holdings Limited  
Marshfield Holdings Limited  
Maz Holdings Limited  
Meadowlands Limited  
Medico Legal Publications Limited  
Medisys International Limited  
Melody Investments Limited  
Merchant Capital Holdings Inc  
Mermaid Investment Holdings Limited  
Minmet Consultants Limited  
Mistral Limited  
Mondial Properties Limited  
Monster Innovations Group Limited  
Nene Investments Limited  
Newbury Park Limited

Benneville Limited	Nordwind Limited
Bibifin Holdings Limited	Novelty Investments Limited
Birchwood Limited	NRS Systems Limited
Black Seal Limited	Nuneaton Investments Limited
Blagen International Co Limited	Orania Business Development Company
Bowman Gilfillan Hayman Godfrey (Jersey) Limited	Limited
Bred Limited	Outlook Investments Limited
Brisel Limited	Oval Import/Export Limited
Broadway Management (Guernsey) Limited	Overseas Teachers Services (Guernsey) Limited
Bruclio Limited	Overwood Limited
Bryher (Guernsey) Limited	Pelagus Investments Limited
Bulk Ships Limited	Pelagus Trawling Limited
Buttercup Properties Limited	Perth Holdings Limited
Cable Investments Limited	Pesora Investments Limited
Cabon Limited	Petrochem Systems Limited
Calais Investments Limited	PHI (Bearwood) Limited
Calyon Finance (Guernsey) Limited	PHI (Bicester) Limited
Calyon Financial Products (Guernsey) Limited	PHI (Bolton) Limited
Camilla Creek Investments Limited	PHI (Bourne) Limited
Cape Choice Limited	PHI (Charlotte Street) Limited
Cap Kerguelin Aps	PHI (Chorley Wood) Limited
Caradoc Farming Limited	PHI (Droitwich) Limited
Cardinal Partners Limited	PHI (Falcon Road) Limited
Caricature Investments Limited	PHI (Llandaff) Limited
Cephee Real Estate Limited	PHI (Maypole) Limited
Channel Energy Limited	PHI (New Milton) Limited
CI Healthcare Limited	PHI (Nottingham) Limited
Clarbeston Limited	PHI (Pype Hayes) Limited
Clarissa Investments Limited	PHI (Ringwood) Limited
Clockwise Investments Limited	PHI (Rushton Street) Limited
Computer Advisory Services Limited	PHI (Stokewood) Limited
Concorde Investments Limited	PHI (Stotfold) Limited
Conisbrough Holdings Limited	PHI (Tibshelf) Limited
Consult International Limited	PHI (Wakefield) Limited
Conwest Limited	PHI (Walsall Wood) Limited
Coolhurst Limited	PHI (Washway Road) Limited
Cooper Holdings Limited	PHI (West Timperley) Limited
Corim Limited	PHI (Willesden) Limited
Craven Investment Limited	PHI (Woolstone Fire Station) Limited
Cufaude Limited	PKF Corporate Finance Limited
Curzon Investments International Limited	PKF (Guernsey) Limited
Curzon Restaurant Holdings Limited	PKF Trustees Limited
Danesbury Holdings Limited	Praxis Asset Management Limited
Deer Park Limited	Praxis Directors One Limited
Deerhurst Finance Limited	Praxis Directors Two Limited
Dekka Holdings Limited	Praxis Fiduciaries Limited
Delphine Investments Limited	Praxis Fiscal Consultants Limited
Depositary & Fin Man Co Limited	Praxis Holdings Limited
Deslin Holdings Limited	Praxis Nominees Limited
DHR Limited	Praxis Portfolio Trustees Limited
Dome Holdings Limited	Praxis Secretaries Limited
Eastbourne Holdings Limited	Praxis Trustees Limited
E-Equip Limited	Portland Investments Limited
Elizabeth Investments Limited	Possec European Holdings Limited
Enderton Holdings Limited	Practiguide Limited
Environmental Holdings Limited	Procon Management Consultancy Limited
Eskimo Trawling Limited	Propose Investments Limited
Eton Hall Limited	Propose One (BVI) Limited
Eurex Holdings Limited	Quantron Limited
Eurosail Marine Limited	RBO Inc
Faraway Limited	Redcar Investments Limited
Felix Yacht Limited	Ridgemount Holdings Limited
Five Arrows Currency Fund Limited	Rosaline Limited

Five Arrows International Bond Funds Limited	Rothschild Asset Management (CI) Limited
Five Arrows International Reserves Limited	Rubimed Holdings Limited
Forester Investments Limited	Ruia Holdings (B) Limited
Fox Shipping Limited	Ruia Holdings (J) Limited
Francine Investments Limited	Sanibel Investments Limited
Friends Investments Limited	Satchel Investments Limited
G&N Capital Limited	Sea Breeze Properties Limited
Gardenia Limited	Seashell Holdings Limited
Georges Corporation Limited	Secure International Limited
Gilray Investments Limited	Select Software (Guernsey) Limited
Glencairn Limited	Sharlin Limited
Glendale Resources Limited	Silchester Limited
Goldspur Limited	Smart Technologies International Limited
Greenwich Limited	Smartcard Technologies Intn Limited
GTH Limited	Somfisco Limited
Guilvinec Holdings Limited	Sotek International Limited
Hale Investments Limited	Sotek Overseas Limited
Handran Holdings Limited	Southwestern Seabridge Limited
Heartbeat Investments Limited	Spensbrook Limited
Heroic Holdings Limited	St Nikolas Bay Development Company Limited
High Point Limited	Strawberry Investments Limited
Highton Investments Limited	Suma Limited
Hillel Yoseph Holding Limited	Sylvan Holdings Limited
IDA Investments (BVI) Limited	TCP Telecom Limited
IDA Investments (Guernsey) Limited	Tadcaster Limited
Idom Services Limited	Teaberl Limited
ILFE Holdings Limited	Thistle Company Limited
Indigo Properties Limited	Tohashe Limited
International Exploration & Trading Limited	Top Gear Limited
International Foods Limited	Topazland Limited
Irish Heartbeat Properties Limited	Townhill Park Limited
Ironplace Investment Corp	Tradebridge Limited
Kalgard Limited	Tradegro Limited
Karri Limited	Tybee Investments Limited
Keepsake Consultancy Limited	Underwood Limited
Keith Drilling Limited	Unison Development Inc
Kilchoan Estate Limited	Vema Consulting Limited
King Hotel Investments Limited	Vine Street (Investments) Limited
Latona Consultancy Limited	Washington Financial (Guernsey) Limited
Laurels Limited	Webworld Limited
Laurels Two Limited	Welland Investments Limited
Le Bonus Limited	Wells Limited
Lesing One Limited	Whittington Consultancy Limited
Lesing Two Limited	Wimberley Holdings Limited
Lesing Three Limited	Witham Investments Limited
Lesing Four Limited	Zenith Investments Limited
Lesing Five Limited	Zephyr Limited
Lesing Six Limited	
Lesing Venco Limited	

## 5. Memorandum and Articles of Association

The Memorandum of Association of the Company provides that the objects of the Company include carrying on business as an investment company. The objects of the Company are set out in full in clause 3 of the Memorandum of Association, a copy of which is available for inspection at the addresses specified in paragraph 10 below.

The Articles of Association of the Company (which are available for inspection at the addresses set out in paragraph 10 below) contain provisions, *inter alia*, to the following effect:

### 5.1 Voting

Members have the right to receive notice of, and to vote at, general meetings of the Company. Each member who is present in person at a general meeting on a show of hands has one vote and, on a poll, every such member who is present in person or by proxy has one vote in respect of each share held.

## 5.2 Shares

- (a) If at any time the shares of the Company are divided into different classes, all or any of the rights for the time being attached to any share or class of shares may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of such shares of the class. The necessary quorum (other than an adjourned meeting) shall be two persons holding or representing by proxy at least one-third of the capital committed or agreed to be committed in respect of the issued shares of the class in question. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not be deemed to be varied by (a) the creation or issue of further shares ranking *pari passu* or (b) the purchase or redemption by the Company of any of its own shares.
- (b) Subject to the Articles, the unissued shares shall be at the disposal of the Directors, who may allot, grant options over, or otherwise dispose of them to such persons, on such terms and conditions, and at such times as they determine.
- (c) The Company may also pay such brokerages and/or commissions provided that the rate or amount of commission shall be fixed by the Board and disclosed in accordance with the Law.
- (d) The Company shall not be affected or bound by or compelled in any way to recognise any equitable contingent future or partial interest in any share except an absolute right to the entirety of the share.

## 5.3 Power to require disclosure

- (a) The Directors may serve notice on any member requiring that member to disclose to the Company the identity of any person (other than the member) who has an interest in the shares held by the member and the nature of such interest. Any such notice shall require any information in response to such notice to be given within such reasonable time as the Directors shall determine.
- (b) If any member is in default in supplying to the Company the information required by the Company within the prescribed period, the Directors in their absolute discretion may at any time thereafter serve a direction notice on the member. The direction notice may direct that in respect of the shares in relation to which the default has occurred (the “default shares”) and any other shares held by the member, the member shall not be entitled to vote in general meetings or class meetings. Where the default shares represent at least 0.25 per cent. of the class of shares concerned the direction notice may additionally direct that dividends on such shares will be retained by the Company (without interest) and that no transfer of the shares (other than a transfer authorised under the Articles) shall be registered unless the member is not himself in default in supplying the information and when presented for registration the transfer is accompanied by a certificate stating that the member is satisfied that no person in default is interested in any shares the subject of the transfer.

## 5.4 Transfer of and transmission of shares

- (a) Subject to the Law, the Board may issue shares as certificated shares and/or as uncertificated shares in its absolute discretion.
- (b) The Articles are consistent with CREST membership and, *inter alia*, allow for shares to be admitted to settlement by means of the CREST UK system.
- (c) Any member may transfer all or any of his certificated shares by instrument of transfer in any form which the Board may approve. The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor.
- (d) The Board may refuse to register any transfer of certificated shares unless the instrument of transfer is lodged at the registered office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to prove the title of the transferor and the due execution by him of the transfer.
- (e) The Directors may refuse to register a transfer of any certificated or uncertificated share which is not fully paid up or on which the Company has a lien provided that this would not prevent dealings from taking place on an open and proper basis on the London Stock Exchange.
- (f) The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine provided that such suspension shall not be for more than 30 days in any one year except that, in respect of any shares which are participating securities, the register shall not be closed without the consent of CRESTCo.

### 5.5 *Alteration of capital*

- (a) The Company may by ordinary resolution increase the share capital by such sum to be divided into shares of such amount as the resolution prescribes.
- (b) The Company may from time to time, subject to the provisions of the Law, purchase its own shares (including any redeemable shares) in any manner authorised by the Law.
- (c) The Company may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares; subdivide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum; cancel any shares which at the date of the resolution have not been taken or agreed to be taken and diminish its authorised share capital accordingly; convert all or any fully paid up shares into stock and reconvert that stock into paid-up shares of any denomination; and convert its fully paid shares expressed in one currency into fully paid shares of a nominal amount of a different currency.
- (d) The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner permitted by the Law.

### 5.6 *General Meetings*

- (a) Not less than 14 days notice specifying the time and place of any general meeting and specifying also in the case of any special business the general nature of the business to be transacted shall be given by notice sent by post to such members as are entitled to receive notices provided that with the consent in writing of all the members entitled to receive notices of such meeting, a meeting may be convened by a shorter notice or at no notice and in any manner they think fit.
- (b) In every notice there shall appear a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend or vote instead of him and that a proxy need not be a member.
- (c) The accidental omission to give notice of any meeting to or the non-receipt of such notice by any member shall not invalidate any resolution passed or proceeding at any meeting.

### 5.7 *Powers and duties of the Board*

- (a) Save as mentioned below, a Director may not vote (or be counted in the quorum) on any resolution of the Board (or a committee of the Directors) in respect of any matter in which he has (together with any interest of any person connected with him) a material interest (other than by virtue of his interest in shares or debentures or other securities of the Company).
- (b) A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
  - (i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person for the benefit of the Company or any of its subsidiaries;
  - (ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
  - (iii) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or its subsidiaries in which offer he is or may be entitled to participate or in the underwriting or sub-underwriting of which he is to participate;
  - (iv) a contract, arrangement, transaction or proposal concerning any other company in which he (and any persons connected with him) is interested, directly or indirectly, as an officer, creditor, shareholder or otherwise if he does not to his knowledge hold an interest in shares representing 1 per cent. or more of either a class of the equity share capital (or of any third party company through which his interest is derived) or of the voting rights in the relevant company;
  - (v) any contract, arrangement, transaction or proposal for the benefit of employees of the Company or any of its subsidiaries which does not award to the Director any privilege or benefit not generally awarded to the employees to which such arrangement relates; and
  - (vi) a contract, arrangement, transaction or proposal for the purchase and/or maintenance of any insurance policy for the benefit of Directors or persons including the Directors.
- (c) Any Director may act by himself or by his firm in a professional capacity for the Company, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

- (d) Any Director may continue to be or become a director, managing director, manager or other officer or member of any company promoted by the Company or in which the Company is interested, and any such Director shall not be accountable to the Company for any remuneration or other benefits received by him.

#### 5.8 *Remuneration of Directors*

- (a) The Directors shall be entitled to receive by way of fees for their services such sum as the Board shall determine provided that the aggregate amount of such fees shall not exceed £200,000 in any financial year (or such higher amount as may be determined from time to time by ordinary resolution of the Company). The Directors shall also be entitled to be paid all reasonable out of pocket expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.
- (b) A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
- (c) The Directors may from time to time appoint one or more of their body (other than a Director resident in the United Kingdom) to be holder of any executive office including the office of managing director on such terms and for such periods as they may determine.

#### 5.9 *Retirement of Directors*

At each annual general meeting, any Director who was elected or last re-elected a Director at or before the annual general meeting held in the third calendar year before the current year shall retire by rotation.

#### 5.10 *Dividends and distribution of assets on a winding up*

- (a) The Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the Board. No dividend shall be paid otherwise than out of the profits of the business of the Company.
- (b) The Directors may at any time declare and pay such interim dividends as appear to be justified by the position of the Company.
- (c) No dividend or other amount payable to any Shareholder shall bear interest against the Company.
- (d) All unclaimed dividends may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall be forfeited and shall revert to the Company.
- (e) If the Company should be wound up the liquidator may with the authority of a special resolution, divide amongst the members in specie the whole or any part of the assets of the Company and whether or not the assets shall consist of property of a single kind, and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such division should be carried out as between the members or different classes of members.

#### 5.11 *Borrowing*

The Directors may exercise all the powers of the Company to borrow money.

#### 5.12 *Life of the Company*

At the annual general meeting of the Company to be held following the seventh anniversary of the Company's incorporation an ordinary resolution will be proposed that the Company ceases to continue as constituted. If the resolution is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter. If the resolution is passed, the Directors shall formulate proposals to be put to the shareholders to reorganise, unitise, reconstruct or wind up the Company.

#### 5.13 *Register of Shareholders*

The Company shall keep the register at its registered office, in accordance with the Law.

### 6. **Overseas investors**

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constitute, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Accordingly, no person receiving a copy of this document in any territory other than the United Kingdom, may treat the same as constituting an offer or invitation to him to acquire, subscribe for or purchase Ordinary Shares nor should he in any event acquire, subscribe for or purchase Ordinary Shares unless such an invitation, acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory. Any person outside the United Kingdom wishing to acquire, subscribe for or purchase Ordinary Shares should satisfy himself that, in doing so, he complies with the laws of any relevant territory, and that he obtains any requisite governmental or other consents and observes any other applicable formalities.

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

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

## 7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since its incorporation and are, or may be, material:

- 7.1 The Management Agreement dated 15 March 2006 between the Company, the Manager and CSPFM pursuant to which the Manager has agreed to provide investment management services to the Company in relation to the assets held by it from time to time.

In consideration for its services thereunder, the Manager is entitled to the following remuneration:

### *Management fee*

The Manager will receive an annual management fee of 1.75 per cent. of the Gross Asset Value of the Company and its subsidiaries. The management fee will be payable quarterly in advance.

### *Performance fee*

In addition, the Manager will be entitled to a performance fee in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per Ordinary Share over the course of a ‘performance period’. The first performance period begins on Admission and ends on 31 March 2007; each subsequent performance period is a period of one financial year. The Manager will become entitled to a performance fee in respect of a performance period only if two conditions are met.

First, a performance hurdle condition must be met. The performance hurdle is that Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeds an amount equal to the Placing Price increased at a rate of 7 per cent. per annum on a compounding basis up to the end of the relevant performance period.

The second condition to be met (a ‘high watermark’ test) is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period is higher than the highest previously recorded Adjusted NAV per Ordinary Share at the end of a performance period in relation to which a performance fee was last earned (or if no performance fee has been earned since Admission, is higher than the Placing Price).

If the performance hurdle is met, and the high watermark exceeded, the performance fee will be an amount equal to 20 per cent. of the excess of the Adjusted NAV per Ordinary Share at the end of the relevant performance period over the higher of (i) the performance hurdle; (ii) the Adjusted NAV per Ordinary Share at the start of the relevant performance period; and (iii) the high watermark (in each case on a per Ordinary Share basis), multiplied by the time weighted average of the number of Ordinary Shares in issue in the

performance period (or since Admission in the first performance period) (together, if applicable, with an amount equal to the VAT thereon).

The Manager has the benefit of an indemnity from the Company in relation to liabilities incurred by the Manager in the discharge of its duties other than those arising by reason of any fraud, wilful default or negligence on the part of the Manager.

The Manager's appointment as investment manager is terminable by the Manager or the Company on not less than twelve months' notice, such notice to expire at any time on or after the third anniversary of Admission. The Management Agreement may also be terminated by either the Manager or the Company if the other party, or CSPFM, has gone into liquidation, administration or receivership or has committed a material breach of the Management Agreement.

- 7.2 The Advisory Agreement dated 15 March 2006 between the Company, the Manager, the Principals and the Investment Adviser pursuant to which the Investment Adviser agrees to provide the Company and the Manager with investment management and advisory services delegated to it pursuant to the agreement.

The Agreement is subject to termination, *inter alia*, on 12 months' notice such notice not to expire before the third anniversary of Admission. The Advisory Agreement may also be terminated by the Investment Adviser or the Company or the Manager if the other party goes into liquidation, administration or receivership or has committed a material breach of the agreement. The Company or the Manager may terminate the Advisory Agreement by giving not less than 6 months' notice to determine the same if there is any change in the identity of the individual at the Investment Adviser responsible for the provision of services by the Investment Adviser (being Keiran Gallagher) and the Company reasonably considers that such change will be detrimental to the Company's performance and/or performance by the Investment Adviser of its obligations under the Agreement provided that the right to terminate shall cease upon the expiration of 6 months from the change of identity.

The Investment Adviser has the benefit of an indemnity from the Company under the terms of the Advisory Agreement in relation to liabilities incurred by the Investment Adviser in the discharge of its duties other than those arising by reason of any fraud, wilful default or negligence on the part of the Investment Adviser.

The Advisory Agreement prohibits the Investment Adviser (without the Company's prior consent) from acquiring assets or providing advisory or management services to third parties in respect of assets in any of the Target Countries for at least one year from Admission. The Agreement also provides that the Investment Adviser will ensure that the Company is given the right of first refusal in respect of all relevant investment opportunities available to the Investment Adviser until the Company is at least 90 per cent. invested. The Principals have undertaken to be bound by these same restrictions.

The Manager shall be responsible for the payment of the fees of the Investment Adviser. The Investment Adviser will receive 50 per cent. of the management fee and performance fee receivable by the Manager under the terms of the Management Agreement referred to in paragraph 7.1 above.

- 7.3 The Administration Agreement dated 15 March 2006 between the Company and the Administrator whereby the Company has appointed the Administrator to provide administrative and secretarial services to the Company. Under the Administration Agreement the Company has also appointed the Administrator as secretary to the Company. Under the Administration Agreement, the Administrator has the authority to delegate the discharge of certain of its functions thereunder provided that the Administrator remains fully responsible for the acts and omissions and costs of any delegate it shall appoint for such purposes.

The agreement is terminable on 6 months' notice in writing, such notice to expire at any time on or after the second anniversary of Admission, and on shorter notice in the event of breach of contract or insolvency.

The Administrator will be paid an annual fee of 0.1 per cent. per annum (subject to a minimum of £125,000) of the Gross Asset Value. The Company will reimburse the Administrator in respect of reasonable out of pocket expenses properly incurred in the performance of its duties.

- 7.4 An offshore Registrar Agreement dated 15 March 2006 between the Company and Capita IRG (CI) Limited (the "Registrar") whereby the Registrar is appointed to act as registrar of the Company. The Registrar shall be entitled to receive a fee from the Company at the basic fee of £2.00 per shareholder account per annum, subject to an annual minimum charge of £5,500, payable quarterly in arrears. Additional fees payable by the Company include, *inter alia*, fees in the sum of £2,500 per annum for maintenance of the register in Guernsey. The Registrar shall also be entitled to reimbursement of all reasonable out of pocket expenses properly incurred on behalf of the Company. The Registrar Agreement is terminable by either party giving not less than 3 months' notice, such notice to expire at any time on or after the first anniversary of Admission.

- 7.5 The Custody Agreement dated 15 March 2006 between the Company and the Custodian under which the Custodian has agreed to act as custodian of the Company's assets. The Custodian has the benefit of an indemnity from the Company against liabilities arising in the absence of the Custodian's negligence, fraud or wilful default. As remuneration for its services the Custodian shall receive from the Company a fee of 0.05 per cent. per annum of the value of the Company's assets held in the custody of the Custodian, payable quarterly in arrears. The Custodian Agreement is terminable on three months' notice expiring on or after the first anniversary of the agreement and on shorter notice in the event of breach of contract or insolvency.
- 7.6 A Nominated Adviser Agreement dated 15 March 2006 between the Company, the Directors and Collins Stewart under which Collins Stewart has agreed, *inter alia*, to act as the Company's nominated adviser as required by the AIM Rules. Collins Stewart has agreed to provide such advice and guidance to the Company to ensure compliance by the Company on an on-going basis with the AIM Rules as the Directors may reasonably request from time to time.

Collins Stewart will receive an annual fee of £15,000 (plus VAT) for its services, payable half yearly in advance, upon Admission. The Company has also given certain undertakings and indemnities to Collins Stewart in connection with its appointment as Nominated Adviser. This agreement is terminable by either Collins Stewart or the Company on one month's notice, such notice not to expire earlier than one year from the date of the agreement.

- 7.7 A Broker Agreement dated 15 March 2006 between the Company, the Directors and Collins Stewart under which Collins Stewart has agreed to act as the Company's broker on an on-going basis.

Collins Stewart will receive an annual fee of £15,000 (plus VAT) for its services, payable half yearly in advance, upon Admission. The Company has also given certain undertakings and indemnities to Collins Stewart in connection with its appointment as broker. This agreement is terminable by Collins Stewart or the Company on one month's notice, such notice not to expire earlier than one year from the date of the agreement.

- 7.8 A Placing Agreement dated 15 March 2006 between the Company, Collins Stewart, the Manager and the Investment Adviser under which Collins Stewart has agreed to use its reasonable endeavours as agent for the Company to procure places at the Placing Price for up to 20,000,000 Placing Shares. In consideration for its services Collins Stewart will be paid by the Company a corporate finance fee of £150,000 and a commission of 2.5 per cent. of the aggregate value, at the Placing Price of the Placing Shares issued pursuant to the Placing.

The Placing Agreement contains certain warranties and indemnities given by the Company (which are of a customary nature) and the Investment Adviser in favour of Collins Stewart. The Placing Agreement may be terminated in certain circumstances prior to Admission including by reason of *force majeure*.

## **8. Working capital**

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

## **9. Miscellaneous**

- 9.1 The Company will be applying to CRESTCo for the Ordinary Shares to be admitted to CREST as a participating security. It is expected that the admission of the Ordinary Shares to CREST as a participating security will be effective from or soon after Admission. Shareholders who are direct or sponsored members of CRESTCo will be able to dematerialise the Ordinary Shares in accordance with the rules and practices instituted by CRESTCo.
- 9.2 The Company has not been and is not currently engaged in any legal or arbitration proceedings nor, so far as the Company is aware, are there any such legal or arbitration proceedings pending or threatened by or against the Company which may have or have had since the Company's incorporation a significant effect on the Company's financial position.
- 9.3 None of the Ordinary Shares available under the Placing is being underwritten.
- 9.4 The Company has no subsidiaries.
- 9.5 The Directors confirm that the Company was incorporated and registered on the date referred to in paragraph 2.1 above and that, save for its entry into the material contracts described in paragraph 7 above, the Company has not traded, no accounts have been made up and no dividends have been declared.

- 9.6 There has been no significant change in the financial or trading position of the Company since the date of its incorporation or any factors which have influenced its activities. The Company does not have nor has it had since incorporation any employees and it neither owns nor leases any premises.
- 9.7 Assuming the Placing is fully subscribed, the total costs and expenses payable by the Company in connection with the Placing and Admission (including professional fees, the costs of printing and the other fees payable, including sales commission) are estimated to be approximately 4.6 per cent. of the gross amount raised.
- 9.8 The Company is not dependent on any patents or other intellectual property rights or licences.
- 9.9 The Company currently has no significant investments in progress.
- 9.10 Save as disclosed in this document, no person has received, directly or indirectly, from the Company since 27 February 2006 (the date of incorporation of the Company) or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.
- 9.11 The accounting reference date of the Company is 31 March.
- 9.12 Collins Stewart has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 9.13 Collins Stewart is authorised and regulated by the FSA.
- 9.14 The maximum amounts of fees which are payable by the Company under the Custody Agreement, which are or may be material, are calculated by reference to the location and value of the assets held for safekeeping and the number of transactions undertaken and cannot therefore be quantified.
- 9.15 The ISIN number of the Ordinary Shares is GB00B0XQ3R24. The SEDOL code of the Ordinary Shares is B0XQ3R2.
- 9.16 The Company will not make any material change in the investment objective and policy of the Company without the approval of Shareholders by ordinary resolution.
- 9.17 Other than as provided in the City Code on Takeovers and Mergers there are no rules or provisions relating to mandatory takeover bids in relation to the Ordinary Shares. There are no rules or provisions relating to squeeze-out and/or sell-out rules relating to the Ordinary Shares.
- 9.18 KPMG Channel Islands Limited have been the only auditors of the Company since its incorporation and are independent.
- 9.19 If no investments are made within two years, a resolution will be put to shareholders to wind up the Company.

#### **10. Documents available for inspection**

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Stephenson Harwood, One St Paul's Churchyard, London EC4M 8SH during business hours on any weekday from the date of this document (Saturdays, Sundays and public holidays excepted) from the date of this document until one month from the date of Admission:

- 10.1 the Memorandum and Articles of Association of the Company;
- 10.2 the material contracts referred to in paragraph 7 of this Part VII;
- 10.3 the Law;
- 10.4 the consent letter referred to in paragraph 9.12 of this Part VII; and
- 10.5 this document.

Dated: 17 March 2006

## PART VIII

### DEFINITIONS

“Act”	the Companies Act 1985 (as amended)
“Adjusted NAV per Ordinary Share”	as at a particular time, is the sum of A and B where:  A is the Net Asset Value at that time, calculated on a basis that does not recognise any liability of the Company to the Manager in respect of any performance fee that is, or may become, payable in the relevant performance period, divided by the number of Ordinary Shares in issue at that time; and  B is the aggregate of the amount of any dividends paid or distributions made by the Company at any time after Admission divided by the time-weighted average of the number of Ordinary Shares in issue since Admission to the end of the relevant performance period
“Admission”	the admission of the Ordinary Shares, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules
“Administration Agreement”	the administration agreement dated 15 March 2006 between the Company and the Administrator, as described in paragraph 7.3 of Part VII of this document
“Administrator”	Collins Stewart Fund Management Limited
“Advisers”	the Manager and the Investment Adviser
“Advisory Agreement”	the advisory agreement between, <i>inter alia</i> , the Company and the Investment Adviser dated 15 March 2006, as described in paragraph 7.2 of Part VII of this document
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules of AIM
“Articles”	the articles of association of the Company
“Board” or “Directors”	the board of directors of the Company including a duly constituted committee thereof
“Collins Stewart”	Collins Stewart Limited, the Company’s nominated adviser for the purposes of the AIM Rules, and broker
“Combined Code”	the Corporate Governance Code issued by the Financial Reporting Council
“the Company”	Eastern European Property Fund Limited
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations) in accordance with which securities may be held and transferred in uncertificated form
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“CREST Regulations”	The Uncertificated Securities Regulations 1995 (SI 1995 No. 3272)
“CSPFM” or “Property Manager”	Collins Stewart Property Fund Management Limited, a subsidiary of the Manager
“Custodian”	Collins Stewart (CI) Limited
“EU”	the European Union

“FSA”	Financial Services Authority
“GDP”	Gross Domestic Product
“GFSC”	Guernsey Financial Services Commission
“Gross Asset Value”	the Net Asset Value plus an amount equal to long term borrowings invested by the Company and its subsidiaries from time to time
“Group”	the Company and its subsidiaries
“IFRS”	International Financial Reporting Standards
“Investment Adviser”	Active Property Investments Limited
“Investment Committee”	a committee of representatives including representatives of both the Manager and the Investment Adviser, initially consisting of Messrs. Gallagher, Cadogan, and Locker
“Law”	the Companies (Guernsey) Law, 1994 (as amended) and subordinate legislation made thereunder and every modification or re-enactment thereof for the time being in force
“London Stock Exchange”	London Stock Exchange plc
“Management Agreement”	the management agreement dated 15 March 2006 between the Company, the Manager and CSPFM, as described in paragraph 7.1 of Part VII of this document
“Manager”	Collins Stewart Fund Management Limited
“Net Asset Value” and “Net Asset Value per Ordinary Share”	respectively the net asset value of the Company and the net asset value of an Ordinary Share
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing”	the placing by Collins Stewart of the Placing Shares at the Placing Price pursuant to the Placing Agreement and as described in this document
“Placing Agreement”	the conditional agreement dated 15 March 2006 between the Company, the Manager, the Investment Adviser and Collins Stewart relating to the Placing, as described in paragraph 7.8 of Part VII of this document
“Placing Price”	100 pence per Ordinary Share
“Placing Shares”	up to 20,000,000 Ordinary Shares
“Principals”	Keiran Gallagher and Oliver Cadogan
“Property Portfolio”	the portfolio of property investments of the Group from time to time
“Registrar”	Capita IRG (CI) Limited
“Regulatory Information Service”	a service provided by the London Stock Exchange for the distribution to the public of announcements and included within the list maintained at the London Stock Exchange’s website
“Shareholders”	holders of Ordinary Shares
“Target Countries”	Turkey, Ukraine, Romania and Bulgaria or any one thereof
“UK” or “United Kingdom”	United Kingdom of Great Britain and Northern Ireland
“UKLA” or “United Kingdom Listing Authority”	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part 8 of the Financial Services and Markets Act 2000
“VAT”	value added tax

## PART IX

### DIRECTORS AND ADVISERS

#### **Directors**

Charles Nigel Kennedy Parkinson (*Chairman*)  
Richard Hugh Barnes  
Carol Patricia Goodwin  
Hugh Roderick Ward

all of:

2nd Floor, No.1 Le Truchot, St. Peter Port,  
Guernsey GY1 4AE, Channel Islands

#### **Manager, Company Secretary, Administrator and Registered Office**

Collins Stewart Fund Management Limited  
2nd Floor  
No.1 Le Truchot  
St. Peter Port  
Guernsey GY1 4AE  
Channel Islands  
Tel: +44 (0) 1481 731 987

#### **Investment Adviser**

Active Property Investments Limited  
2nd Floor  
No.1 Le Truchot  
St. Peter Port  
Guernsey GY1 4AE  
Channel Islands

#### **Financial Adviser, Nominated Adviser and Broker**

Collins Stewart Limited  
9th Floor  
88 Wood Street  
London EC2V 7QR

#### **Property Manager**

Collins Stewart Property Fund Management  
Limited  
CNC House  
The Grand Union Office Park  
Packet Boat Lane  
Uxbridge UB8 2GH

#### **English Legal Adviser to the Company**

Stephenson Harwood  
One, St. Paul's Churchyard  
London EC4M 8SH

#### **Custodian**

Collins Stewart (CI) Limited  
Landes du Marché Chambers  
Vale  
Guernsey GY1 3TY  
Channel Islands  
Tel : +44 (0) 1481 251 515

#### **Guernsey Legal Adviser to the Company**

Carey Olsen  
7 New Street  
St. Peter Port  
Guernsey GY1 4BZ  
Channel Islands

#### **Tax Advisers**

KPMG LLP  
38th Floor  
Canary Wharf  
1 Canada Square  
London E14 5AG

#### **Auditors**

KPMG Channel Islands Limited  
20 New Street  
St. Peter Port  
Guernsey GY1 4AN  
Channel Islands

#### **Registrar**

Capita IRG (CI) Limited  
Landes du Marché Chambers  
Vale  
Guernsey GY1 3TY  
Channel Islands  
Tel : +44 (0) 870 162 3100

