



R. G. I. International Limited

Morgan Stanley





*THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA") who specialises in advising on the acquisition of shares and other securities.*

*This document is an AIM admission document which has been prepared in accordance with the AIM Rules. This document does not constitute a prospectus pursuant to the Prospectus Directive, but has been prepared in accordance with the requirements of the Prospectus Directive, in so far as required by the AIM Rules. This document has not been, and will not be, approved by, or filed with, the FSA.*

*Application has been made for the Ordinary Shares, both issued and to be issued pursuant to the Offer, to be admitted to trading on AIM. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.*

*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. 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. London Stock Exchange plc has not itself examined or approved the contents of this document. No application has been made or is being made for the admission of the Ordinary Shares to the Official List of the United Kingdom Listing Authority.*

*Prospective investors should read the whole text of this document and should be aware that an investment in the Company is speculative and involves a higher than normal degree of risk. The attention of prospective investors is drawn in particular to the section entitled "Risk Factors" set out in Part II of this document. All statements regarding the Company's business should be viewed in light of these risk factors.*

## **R.G.I. INTERNATIONAL LIMITED**

*(Incorporated in Guernsey under The Companies (Guernsey) Law 1994 (as amended) with registered number 44527)*

**Offer of 29,099,250 Ordinary Shares of  
£0.000000004 each at an Offer Price of  
US\$6.00 per share  
and**

**Admission to trading on AIM**

*Lead Manager and Bookrunner*

**Morgan Stanley Securities Limited**

*Nominated Adviser*

**KPMG Corporate Finance**

### **Share Capital**

*(immediately following the Offer and on Admission)*

<b>Authorised</b>			<b>Issued and fully paid</b>	
<b>Amount</b>	<b>Number</b>		<b>Amount</b>	<b>Number</b>
£50,000	12,500,000,000,000	Ordinary Shares of £0.000000004 each	£0.40	98,796,219

*The Directors, whose names appear on page 2 of this document, accept responsibility, both individually and collectively, for the information contained in this document including responsibility for compliance with the AIM Rules. 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.*

*The Offer Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the Ordinary Shares and will rank pari passu in all respects with all other Ordinary Shares which will be in issue on Admission. The Offer Shares are not being made generally available to the public in conjunction with the Offer. The Offer is conditional upon, among other things, Admission having become effective not later than 20 December 2006.*

*Lead Manager and Bookrunner*

**MORGAN STANLEY**

*Co-Manager*

**SHORE CAPITAL**

*It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM on 13 December 2006. Conditional dealings in the Ordinary Shares before Admission are expected to commence on AIM on 8 December 2006 and will only be settled if Admission takes place. All dealings before commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.*

*Consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 2003, has been obtained to this issue. 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 opinions expressed with regard to it.*

*Prospective investors should consult their professional advisers on potential tax consequences of subscribing for, purchasing, holding or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.*

*Morgan Stanley is acting as lead manager, bookrunner and broker to the Company in connection with the matters set out in this document. Morgan Stanley is not acting for any person other than the Company and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or providing advice in relation to the contents of this document or any matter or for any arrangements described in this document. Morgan Stanley has not authorised the distribution of this document, or any part of it.*

*KPMG Corporate Finance, a division of KPMG LLP, which is authorised and regulated by the Financial Services Authority for the conduct of investment business in the United Kingdom, is acting as nominated adviser to the Company in connection with the matters set out in this document. KPMG Corporate Finance is not acting for any person other than the Company and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or providing advice in relation to the contents of this document or any matter or for any arrangements described in this document. KPMG Corporate Finance has not authorised the distribution of this document, or any part of it.*

*Shore Capital is acting as co-manager to the Company in connection with the matters set out in this document. Shore Capital is not acting for any person other than the Company and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or providing advice in relation to the contents of this document or any matter or for any arrangements described in this document. Shore Capital has not authorised the distribution of this document, or any part of it.*

*The responsibilities of KPMG Corporate Finance as the Company's nominated adviser under the AIM Rules will be owed solely to the London Stock Exchange plc and not to the Company, to any of its directors or any other person in respect of a decision to subscribe for or acquire shares in the Company in reliance on the admission document relating to the Company in its final form.*

*No undertaking, representation, warranty or other assurance, express or implied, is made or given by or on behalf of KPMG Corporate Finance, Morgan Stanley or Shore Capital or any of their respective directors, officers, partners, employees, agents or advisers or any other person as to the accuracy or completeness of the information or opinions contained in this document or for the omission of any information (without limiting the statutory rights of any person to whom this document is issued) and, apart from the responsibilities and liabilities, if any, which may be imposed upon KPMG Corporate Finance, Morgan Stanley or Shore Capital by the FSMA or the regulatory regime established thereunder, no responsibility or liability is accepted by any of them for any such information or opinions or beliefs or for any errors or omission. Notwithstanding the aforesaid, nothing in this paragraph shall exclude liability for any undertaking, representation, warranty or other assurance made fraudulently. Recipients of this document should conduct their own investigation, evaluation and analysis of the business, data and property described in this document.*

*The Ordinary Shares must not and will not be offered to the public in the United Kingdom (within the meaning of section 102B of the FSMA), save in circumstances where it is lawful to do so without an approved prospectus (within the meaning of section 85 FSMA) being made available to the public before the offer is made.*

*In connection with the Offer, Morgan Stanley, Shore Capital and any of their respective affiliates acting as an investor for its own account may take up Offer Shares and in that capacity may retain, purchase or sell for its own account such securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offer. Accordingly, reference in this document to the Offer Shares being offered or placed should be read as including any offering or placement of securities to Morgan Stanley, Shore Capital and any of their respective affiliates acting in such capacity. Neither Morgan Stanley nor Shore Capital intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.*

*No person is authorised, in connection with the Offer, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by KPMG Corporate Finance, Morgan Stanley or Shore Capital or the Company, its shareholders or their respective directors or professional advisers. No Ordinary Shares have been marketed to, or are available for purchase, in whole or in part, by the public in the United Kingdom or elsewhere in connection with the Offer.*

*Prospective investors should rely only on the information contained in this document. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription or sale made under this document shall, under any circumstances, create any implication that there has been no change*

in the business affairs of the Company or of the Group since the date of this document or that the information contained herein is correct as at any time subsequent to its date.

The contents of this document are not intended to be nor should they be construed as legal, financial or tax advice, and therefore prospective investors must not treat the contents of this document as advice relating to legal, financial, taxation, investment or any other matters. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

This document is being furnished by the Company in connection with an offering exempt from registration under the United States Securities Act of 1933 (as amended) (the “Securities Act”) solely for the purpose of enabling certain prospective investors to consider the purchase of Ordinary Shares. Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Ordinary Shares offered hereby is prohibited, except to the extent such information is otherwise publicly available. Each offeree of the Ordinary Shares, by accepting delivery of this document, agrees to the foregoing.

### **Forward-Looking Statements**

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company concerning, among other things, the investment objective and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects and dividend policy of the Company and the markets in which it, directly and indirectly, will invest. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance. The Company’s actual investment performance, results of operations, financial condition, liquidity, dividend policy and the development of its financing strategies may differ materially from the impression created by any forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition, liquidity and dividend policy of the Company are consistent with any forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Important factors that may cause these differences include, but are not limited to, changes in economic conditions generally and in the Russian real estate market specifically, legislative or regulatory changes, changes in taxation regimes, the Company’s ability to invest the cash on its balance sheet and the proceeds of the Offer in suitable investments on a timely basis, the Company’s ability to meet the development costs of its current projects, the availability and cost of capital for future developments and the availability of suitable financing.

Potential investors are advised to read this document in its entirety, and, in particular, Part II of this document entitled “Risk Factors” for a further discussion of the factors that could affect the Company’s future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

These forward-looking statements speak only as at the date of this document. Subject to its legal and regulatory obligations (including under the AIM Rules), the Company expressly disclaims any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

### **Presentation of Financial Information**

Unless otherwise indicated, the financial information in this document has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, a body of accounting rules that may differ materially from generally accepted accounting principles in the United States (“US GAAP”). The Company has not quantified the impact of these differences. In making an investment decision, prospective investors must rely on their own examination of the Company and its subsidiary undertakings from time to time, the terms of the Offer and the financial information in this document (and should give consideration to the fact that such financial information is limited). Prospective investors should consult their own professional advisers for an understanding of the difference between IFRS and US GAAP.

The Company is newly formed and as of the time of the Offer only has limited financial information available. All future financial information for the Company is intended to be prepared in accordance with IFRS as adopted by the European Union.



### **Limitation on Enforcement of Civil Liabilities**

*The Company is incorporated in Guernsey. With one exception, the Directors reside in either Israel or Russia. All or a substantial portion of the Group's assets are located principally in Russia. As a result, investors may not be able to effect service of process within their respective jurisdictions on the Group or all of its Directors, or to enforce within their respective jurisdictions a judgment obtained against the Group or all of its Directors in the courts of their respective jurisdictions and predicated upon the laws of such jurisdiction. In addition, judgments rendered by a court in an investor's respective jurisdiction will be recognised by courts and state authorities in another jurisdiction only if an international treaty providing for the recognition and enforcement of judgments exists between the country where the judgment is rendered and the country where it is sought to be enforced.*

### **Industry and Market Data**

*This document contains governmental, industry and market data. The official data published by Russian federal, regional and local government agencies are likely to be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussions of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Additionally, the Directors rely on and refer to information and statistics from various third party sources and their own internal estimates. The Directors believe that these sources and estimates are reliable, but have not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty mentioned above. Unless otherwise stated, all such data is presented in nominal terms and has not been re-stated to reflect the effects of inflation.*

### **Valuation of Industry Consultant**

*At the Directors' request, OOO Debenham Zadelhoff Limited ("DTZ" or the "Industry Consultant"), an independent real estate appraiser, has performed a valuation of the developments described in this document. The Industry Consultant appraised, as of 1 October 2006, the market value of such developments, subject to the assumptions and limitations described in the Industry Consultant's Report. The valuation is based on the Industry Consultant's estimate of the open market price that could have been obtained for the appraised assets and takes no account of the Company's economic interests in such assets. In preparing its Report, the Industry Consultant's valuation estimate has been primarily derived using comparable recent market transactions on arm's length terms.*

*The Industry Consultant's Report has been prepared by the Industry Consultant solely on the basis of information provided by the Group and without independent verification. The Industry Consultant accepts no third party liability in respect of its valuations. Prospective investors should conduct their own investigation to determine if they would agree with the appraisals prepared for the Company. No assurance can be given that an appraised asset could have been or could be sold at the market value set forth in the valuation report relating thereto, nor that the market value thereof will not decline significantly over time due to various factors, including changing macro- and micro-economic conditions in Russia generally or in Moscow specifically. The Industry Consultant also gives no assurance that valuations by other independent appraisers or at more recent dates would not produce lower or higher values.*

### **Restriction on Sales**

*The distribution of this document and the offer and sale of the Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company, KPMG Corporate Finance, Morgan Stanley or Shore Capital that would permit a public offer of Ordinary Shares or possession, publication or distribution of this document (or any other offer or publicity material or application form relating to the Ordinary Shares) in any jurisdiction where action for that purpose is required. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or an invitation to subscribe or purchase, any Ordinary Shares in any jurisdiction in which such offer or sale would be unlawful.*

### **Notice to Prospective Investors in the United Kingdom**

*This document is being distributed in the United Kingdom only to, and is directed only at (a) persons who have professional experience in matters relating to investments and who are investment professionals as specified in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Financial Promotion Order"); (b) persons falling within Article 50(1) of the Financial Promotion Order ("certified sophisticated investors"); (c) persons falling within Article 49(2)(a)-(d) of the Financial Promotion Order ("high net worth companies, unincorporated associations etc."); (d) persons falling within Article 48(2) of the Financial Promotion Order ("certified high net worth individuals") or (e) persons to whom this document may otherwise be lawfully distributed (all such persons together with "qualified investors" (as defined in the Prospectus Directive) being referred to as "Relevant Persons"). This document and its contents must not be acted upon or relied upon in the United Kingdom by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only in the United Kingdom to Relevant Persons, and will be engaged in only with such persons. This document is exempt from the general restriction on the communication of invitations or inducements to enter into investment activity and has therefore not been approved by an authorised person, as*

would otherwise be required by section 21 of the FSM.A. Any investment to which this document relates is only available to (and any investment activity to which it relates will be engaged in only with) Relevant Persons. Persons who are not Relevant Persons should not take any action upon receipt of this document. By receiving this document you are deemed to warrant to the Company, KPMG Corporate Finance, Morgan Stanley and Shore Capital that you fall within the categories of persons described above. KPMG Corporate Finance is acting in relation to Admission, but not in relation to the Offer.

#### **Notice to Prospective Investors in the European Economic Area**

This document is being distributed only to, and is directed only at, persons in member states of the European Economic Area who are “qualified investors” (as defined in the Prospectus Directive). This document must not be acted or relied upon in any member state of the European Economic Area by persons who are not qualified investors. Any investment or investment action to which this document relates is available in any member state of the European Economic Area only to “qualified investors”, and will be engaged in only with such persons.

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a “relevant member state”) an offer to the public of the Ordinary Shares may not be made in that relevant member state, except that an offer to the public in that relevant member state of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that relevant member state: (a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or (b) to any legal entity that has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million and (iii) an annual net turnover of more than €50 million, as shown in its last annual or consolidated accounts; or (c) in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each subscriber for, or purchaser of, Ordinary Shares described in this document located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive. For purposes of this provision, the expression an “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Offer and the Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Ordinary Shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

In the case of any Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted and agreed to with Morgan Stanley, KPMG Corporate Finance, Shore Capital and the Company that (i) the Ordinary Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, or in circumstances where the prior written consent of Morgan Stanley, Shore Capital and KPMG Corporate Finance has been obtained to each such proposed offer or resale or (ii) where Ordinary Shares have been acquired by it or on behalf of persons in any relevant member state other than qualified investors, the offer of those Ordinary Shares to it is not treated under the Prospectus Directive as having been made to such persons. The Company, Morgan Stanley, Shore Capital and KPMG Corporate Finance and each of their respective affiliates, and others will rely upon the truth and accuracy of the foregoing representation, warranty and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified Morgan Stanley, Shore Capital and KPMG Corporate Finance of such fact in writing may, with the consent of Morgan Stanley, Shore Capital and KPMG Corporate Finance, may be permitted to subscribe for, or purchase the Ordinary Shares.

#### **Over-allotment and Stabilisation**

In connection with the Offer, Morgan Stanley, as stabilising manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market. Morgan Stanley is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be taken during the period from 8 December 2006 up to and including 7 January 2007. Save as required by law or regulation, neither Morgan Stanley nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer.

In connection with the Offer, Morgan Stanley, as stabilising manager, may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 10 percent of the total number of Ordinary Shares comprised in the Offer. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares by it during the stabilising period, the Company has granted to Morgan Stanley the Over-allotment Option, pursuant to which Morgan Stanley may require the Company to issue additional Ordinary Shares up to a maximum of 10 percent of the total number of Ordinary Shares comprised in the Offer at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by Morgan Stanley, at any time on or before the 30th calendar day after commencement of conditional dealings in the Ordinary Shares. Any Ordinary Shares made available pursuant to the Over-allotment Option will be issued on the same terms and conditions as the Ordinary Shares being issued in the Offer and will form a single class for all purposes with the other Ordinary Shares.

**Distribution**

*This document does not constitute an offer to sell and may not be used for the purposes of, an offer or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, any Ordinary Shares to any person in any jurisdiction in which such an offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements for the Company, KPMG Corporate Finance, Morgan Stanley or Shore Capital. Any failure to comply with these restrictions may constitute a violation of securities laws of any such jurisdiction. This document should not be distributed, published, reproduced or otherwise made available in whole or in part or disclosed by recipients to any other person and, in particular, should not be distributed to persons with addresses in the United States of America or in any other country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirements. Accordingly, persons outside the United Kingdom into whose possession this document comes are required by the Company, Morgan Stanley, Shore Capital and KPMG Corporate Finance to inform themselves about and to observe any restrictions as to the offer or sale of Ordinary Shares and the distribution of this document under the laws and regulations of any territory in connection with any applications for Ordinary Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by the Company, Morgan Stanley, Shore Capital or KPMG Corporate Finance that would permit a public offering of the Ordinary Shares in any jurisdiction where action for that purpose is required. The Ordinary Shares have not been, and will not be, registered under the Securities Act, or under the securities legislation of any state of the United States of America. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America or offered or sold to a person within the United States of America or to or for the account of US Persons (as defined in the Securities Act).*

*The Ordinary Shares being offered and sold outside the United States are being offered in reliance on Regulation S under the Securities Act. However, they have not been and will not be registered under any applicable securities laws of Australia, Canada or Japan or to any national, resident or citizen of Australia, Canada or Japan.*

*Neither the Ordinary Shares described in this document nor this document have been, or are intended to be, registered with the Russian Federal Service for the Financial Markets or any other state bodies that may from time to time be responsible for such registration. This document does not constitute a public offer or advertisement for the Ordinary Shares in the Russian Federation, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer Ordinary Shares to an unlimited group of persons in the Russian Federation.*

**Nominated Adviser**

*KPMG Corporate Finance has been appointed as nominated adviser to the Company.*

**Currency Information**

*Unless otherwise specified or the context requires, all references to “dollars”, “US dollars”, “US\$” and “cents” are to United States dollars and cents, all references to “Roubles” or “RUB” are references to Russian roubles, and all references to “pounds sterling” or “£” are to United Kingdom pounds sterling.*

*The official currency of Russia, where the Company’s assets and operations are located, is the Rouble. Solely for the convenience of the reader, and except as otherwise stated, this document contains translations of some Rouble amounts into US dollars at a conversion rate of RUB 27.0789 to US\$1.00, which was the rate published by the Central Bank of Russia on 30 June 2006. No representation is made that the Rouble or dollar amounts referred to herein could have been or could be converted into Roubles or dollars, as the case may be, at these rates, at any particular rate or at all.*

**Available Information**

*Copies of this document will be available to the public free of charge from the registered office of the Company, from the offices of Morgan Stanley, at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom, and from the offices of Shore Capital at Bond Street House, 14 Clifford Street, London W1S 4JU, United Kingdom, during normal office hours (Saturdays and Sundays excepted) from the date of this document until the date which is one month following Admission.*



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## OFFER STATISTICS

Offer Price . . . . .	US\$6.00
Number of Ordinary Shares in issue prior to the Offer and Admission . . . . .	69,696,969
Number of Offer Shares <sup>(1)</sup> . . . . .	29,099,250
Number of Ordinary Shares subject to the Over-allotment Option . . . . .	2,909,925
Number of Ordinary Shares in issue following the Offer and on Admission <sup>(1)</sup> . .	98,796,219
Estimated net proceeds of the Offer receivable by the Company <sup>(2)</sup> . . . . .	US\$162.6 million
Proportion of enlarged issued Ordinary Share capital being offered <sup>(1)</sup> . . . . .	29.5 percent
Market capitalisation at the Offer Price immediately following Admission <sup>(1)</sup> . . .	US\$592.8 million

**Notes:**

(1) Assuming no exercise of the Over-allotment Option.

(2) Net proceeds of the Offer (assuming no exercise of the Over-allotment Option) are after deduction of the expenses of the Offer.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS<sup>(1)</sup>

Publication of this document . . . . .	7 December 2006
Expected date of commencement of conditional dealings <sup>(2)</sup> . . . . .	8 December 2006
Effective issue date of the Offer Shares . . . . .	13 December 2006
Admission effective and commencement of unconditional dealings in the Ordinary Shares on AIM . . . . .	13 December 2006
CREST accounts to be credited (where applicable) . . . . .	13 December 2006
Despatch of definitive share certificates (where applicable) . . . . .	20 December 2006

**Notes:**

(1) Each of the dates in the above timetable is subject to change. References to times are to London times unless otherwise stated.

(2) If Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties involved.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Jacob Kriesler ( <i>Executive Chairman</i> ) Boris Kuzinez ( <i>Chief Executive</i> ) Mariana Golberg ( <i>Finance Director</i> ) Emanuel Kuzinets ( <i>Director</i> ) Timothy Dominic Ignatius Fenwick ( <i>Non-Executive Director</i> ) Rafael Eldor ( <i>Non-Executive Director</i> ) Glenn Hunter Aaronson ( <i>Non-Executive Director</i> )  whose business address is Frances House, Sir William Place, St. Peter Port, Guernsey GY1 4HQ
<b>Registered Office</b>	Frances House Sir William Place St. Peter Port Guernsey GY1 4HQ
<b>Company Secretary</b>	Bachmann Fund Administration Limited Frances House Sir William Place St. Peter Port Guernsey GY1 4HQ
<b>Nominated Adviser</b>	KPMG Corporate Finance 8 Salisbury Square London EC4Y 8BB
<b>Lead Manager, Bookrunner and Broker</b>	Morgan Stanley Securities Limited 25 Cabot Square Canary Wharf London E14 4QA
<b>Co-Manager</b>	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
<b>Legal Advisers to the Company</b>	<i>As to English law:</i> White & Case 5 Old Broad Street London EC2N 1DW  <i>As to Russian law:</i> White & Case LLC 4 Romanov Pereulok 125009 Moscow  <i>As to Russian law:</i> Georgiev & Partners 40/2 Prechistenka Street 119034 Moscow  <i>As to Guernsey law:</i> Collas Day Advocates Manor Place St Peter Port Guernsey GY1 4EW  <i>As to Cypriot law:</i> Georgiades & Pelides Eagle House Ayioi Omoloyites 16 Kyriakos Matsis Nicosia

<b>Legal Adviser to the Nominated Adviser, Lead Manager, Bookrunner and Broker</b>	<i>As to English law:</i> Skadden, Arps, Slate, Meagher & Flom (UK) LLP 40 Bank Street Canary Wharf London E14 5DS
<b>Auditors</b>	PricewaterhouseCoopers CI LLP National Westminster House Le Truchot St. Peter Port Guernsey GY1 4ND
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## PART I

### KEY INFORMATION

**The following information should be read in conjunction with the full text of this document from which it is derived and in particular the risk factors set out in Part II of this document. Prospective investors should read the whole of this document and not rely solely on the summarised information set out below.**

#### Overview

RGI is the holding company of the Group, whose core business is the development and management of high-end office, retail and residential properties in central Moscow and the surrounding areas. The Group's management team is led by Boris Kuzinez, who has a proven track record in completing high-end development projects in central Moscow and the surrounding areas. Boris Kuzinez is also, indirectly, the Group's majority shareholder.

The Group is currently in the process of developing five properties. Development of these properties is at a very early stage, and construction has commenced in respect of only one property. These projects comprise one primarily retail development at 15/1 Tsvetnoy Boulevard (estimated gross internal area of 38,653 square metres), two primarily office developments at 15 Butikovskiy Lane (estimated gross internal area of 8,929 square metres) and 70/1 Zemlianoj Val Street (estimated gross internal area of 10,491 square metres) and two primarily residential developments at 3/1 Khilkov Lane (estimated gross internal area of 32,000 square metres) and 37/7 Ostozhenka Street (estimated gross internal area of 1,379 square metres). In the Russian Federation, property may be developed in different ways, which may not necessarily result in a developer acquiring a 100 percent ownership interest in a completed development.

In addition, the Group has one pipeline office, retail and residential development at 5-13 Nizhniy Taganskij Lane (estimated gross internal area of 67,995 square metres)—the Taganka Development. The Group does not currently have any development rights in relation to the Taganka Development, or any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that the Moscow Government will grant such resolution on terms acceptable to the Group or at all.

#### Strategy

The Group's overall strategy is to target the high-end, prime location office, retail and residential property market segments in central Moscow and the surrounding areas.

The Group intends to complete the construction of its current development projects and, in general, to retain and manage the completed office and retail properties within such developments, although all or part of such developments may be sold in the right market conditions, if doing so, in the view of the Directors, will optimise shareholder value. The Group intends to dispose of its completed residential property developments. The Group also intends to identify and invest in additional development projects in prime locations in central Moscow and the surrounding areas. The future mix of office, retail and residential developments will depend on the opportunities presented to the Group and may change over time.

#### Competitive Strengths

The Directors believe that the Group benefits from the following competitive strengths:

*Extensive property development experience and contacts:* The Group's management has extensive experience in identifying and developing high-end office, retail and residential properties situated in prime locations in central Moscow and the surrounding areas. Boris Kuzinez has built extensive contacts among local contractors, architects and suppliers, and has developed working relationships with Moscow's municipal and federal officials.

*Reputation for quality:* Through its association with Boris Kuzinez, the Directors believe that the Group will acquire a reputation for constructing high quality developments, and that such reputation will allow the Group to attract highly qualified project managers, employees, contractors and advisers. The Directors also believe that this recognition will enable the Group to continue to source attractive development

opportunities, attract high quality tenants to its office and retail property developments and command premium prices on the sale of its residential developments.

*Attractive, centrally located portfolio of office, retail and residential development projects:* The Directors believe that the Group benefits from an attractive portfolio of office, retail and residential projects. All of the Group's current developments are centrally located, being within three kilometres of the Kremlin.

*Diversified portfolio of developments:* The Directors believe that the Group's current diversified portfolio of developments results in the Group being less exposed to downturns in one particular market sector.

*Integrated property management:* In general, the Group intends to retain ownership of its office and retail developments after completion of construction. Property management services to the Group will be provided by LLC Armix ("Armix"), a property management subsidiary of the Company. As a result, no management fees will be paid to external management entities.

*Capital structure:* The Group currently has no material existing external indebtedness. Following completion of the Offer and Admission, the Directors expect that the Company will have capacity to raise external debt financing to optimise its capital structure and execute its business strategy.

### **Industry Consultant's Report**

In connection with the Offer and Admission, the Company has commissioned the Industry Consultant's Report. The Industry Consultant's Report has valued the Group's current development and pipeline projects, in their existing state at an aggregate of US\$291,948,000 based on the Group's target ownership. Such valuation has been primarily derived using comparable recent market transactions on arm's length terms. In preparing such valuation, the Industry Consultant has adopted certain methodology and assumptions as set out in the Industry Consultant's Report set out in Part V of this document. The valuation makes assumptions that certain matters have occurred which have not occurred to date. In particular:

- In order to obtain the target ownership of each development, the Group must make further material payments to third parties in respect of the Butikovsky Development and the Khilkov Development and no account has been taken of such payments in the valuations;
- The remaining permits and approvals required in respect of the Group's developments can be received within an acceptable timescale and that there are no issues which would delay materially the issuance of the required consents or approvals; and
- The Group currently does not have any land lease rights in respect of the Taganka Development or any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that such a resolution will be granted. The Taganka Development has been valued by the Industry Consultant at \$91,997,000 based on 100 percent target ownership.

### **Reasons for Admission and the Offer**

The Directors are seeking Admission and proceeding with the Offer in order to raise funds to continue the development and construction of the Group's current and pipeline developments and to provide the Group with additional working capital to execute its business strategy outlined above and as further described in Part III of this document.

The Directors consider that the Company's Admission will be an important step in its development and will enhance its standing in the market. It will also enable the Group to access finance which may be required in order to allow the Group to progress its current and future developments and, if the Board so determines, to expand in its chosen markets both organically and through selective acquisitions.

### **Use of Proceeds**

The Company is seeking to raise US\$174,595,500 (before expenses and assuming no exercise of the Over-allotment Option) through the Offer Shares which will be used, in order of priority, to:

- settle the expenses and fees of the Offer and Admission process;

- continue the Group's current development programme, including certain payments to related and non-related third parties to complete the acquisition of the Group's assets;
- provide working capital and funds for general corporate purposes; and
- potentially, fund the development of future projects.

### **Liquidity and Financing**

The Group will need to raise additional finance in order to fund the development of its existing projects and to acquire future developments. Following the Offer and Admission, the Group will have sufficient funds to finance the development of its current projects, with the exception of the Taganka Development, for which external finance will be required.

On Admission, the Group will have no material external indebtedness. The Group expects to have the capacity to raise external debt financing, which will depend upon, *inter alia*, the status of the permits and approvals necessary to proceed with the Group's development projects and the extent of any bank guarantees required by the Moscow Government in respect of the Group's developments.

### **Dividend Policy**

The Company has not paid any dividends on the Ordinary Shares since its incorporation. The Group's developments will initially be highly capital intensive, given the early stage nature of the Group's portfolio. The Directors do not therefore currently anticipate paying dividends in the foreseeable future.

The declaration and payment of any dividends on the Ordinary Shares is at the discretion of the Board. The Board's intention is for the Company to commence the payment of dividends when it becomes commercially prudent to do so. In the long term the Group will target a dividend rate of between 30 to 70 percent of recurring income. Any declaration and payment of dividends by the Group will be dependent upon the Group's results, financial position, cash requirements, future prospects, profits available for distribution and other factors regarded by the Directors as relevant at the time. There can be no guarantee that the Company will be able to pay dividends on the Ordinary Shares in the foreseeable future.

### **Lock-up Undertakings**

Subject to certain exceptions, each of D.E.S. Commercial Holdings Limited ("D.E.S."), SSF III Father Holdings, Ltd ("SSF III Father Holdings"), Kensington Gore Limited ("Kensington Gore") and the Directors have undertaken to Morgan Stanley and KPMG Corporate Finance that they will not offer or sell any Ordinary Shares for a period of 365 days from Admission without the prior written consent of Morgan Stanley and KPMG Corporate Finance.

Subject to certain exceptions the Company has undertaken, amongst other things, not to offer, issue or sell, additional Ordinary Shares for a period of 180 days from Admission, without the prior written consent of Morgan Stanley and KPMG Corporate Finance.

### **Risk Factors**

**Potential investors should carefully consider the risks described in Part II of this document together with other information in this document and their personal circumstances before making any decision to invest in the Company.**

## PART II

### RISK FACTORS

Any investment in the Ordinary Shares is subject to various risk factors. In addition to the other information set out in this document, potential investors should carefully consider the risks described below before making any decision to invest in the Company. Investors in companies with assets in and a focus on emerging markets such as the Russian Federation should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set out in this document may become outdated relatively quickly. Investors should note that land use and ownership rights and development rights in the Russian Federation and the City of Moscow in particular are inherently uncertain and subject to the risks set out below. If any of the risks described in this Part II, which are not intended to be exhaustive, should actually be realised, the Company and the Group could be materially affected. There may be additional risks of which the Company is not aware or which the Company currently believes are immaterial. If such risks were to materialise, the business, prospects, financial condition or results of operations of the Group or any Group Company could be materially and adversely affected. In such circumstances, the price of the Ordinary Shares may fall and investors could lose all or part of their investment. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

#### **Risks Relating to the Group's Business**

##### ***The Group's current projects are at an early stage of development***

All of the Group's projects described in this document are at an early stage of development. Only in respect of the Butikovsky Development has a construction permit been obtained and physical construction commenced. Such construction has not been completed. All other developments are in the process of obtaining various permitting documentation and regulatory approvals or preliminary resolutions of the Moscow Government or other relevant authorities. In respect of such developments, construction has not yet begun and a significant amount of work is required in order to begin and complete such developments. Consequently, although the Directors believe that the developments described in this document can be completed, there can be no assurance that difficulties with regulatory authorities (including the Moscow Government) or other factors will not occur which will delay or prevent completion of any of the Group's developments. Such difficulties include a risk that the Moscow Government may arbitrarily refuse to grant necessary permits or approvals and thereby prevent the completion of a particular development. Such action would have a significant adverse effect on the Group's business, prospects, financial condition and results of operations.

No pre-sales or firm pre-lettings of any of the developments described in this document have been made. As such, construction of the developments may be regarded as speculative. Therefore, there can be no assurance that upon completion, the developments described in this document will generate sales revenue or a rental stream for the Group.

Therefore, over the next 12 to 36 months at least, the Group will have no or limited income and will incur significant levels of expenditure in relation to its current developments.

##### ***The Group does not have any approvals from the Moscow Government to construct the Taganka Development***

The Group does not have any formal approvals from the Moscow Government permitting it to construct the Taganka Development. At the date of this document, no signed resolution of the Moscow Government entitling LLC Directway Investments Limited ("LLC Directway Investments") to carry out construction of the Taganka Development has been obtained. As such, the Group currently has no formal land lease rights in respect of the Taganka Development nor any rights to construct the Taganka Development at all. There can be no assurance that the Moscow Government will grant such resolution. The Group has received a letter from counsel to the Mayor of Moscow which expresses doubt as to whether the Mayor of Moscow will sign such a resolution on behalf of the Moscow Government. Even if such resolution were signed, it may contradict an existing resolution of the Moscow Government. A resolution of the Moscow Government dated 21 March 2006 provides that the land plot relevant to the Taganka Development is to be allocated for development based upon an open tender. The Group has not participated in such a tender.

Furthermore, no public information is available regarding whether the relevant land plot has been allocated to another developer based on an open tender. As such, no assurances can be given regarding the Group's future ability to acquire development rights to the Taganka Development.

The Taganka Development accounts for a significant percentage of the aggregate valuation of the Group's initial portfolio contained in the Industry Consultant's Report and as such the Taganka Development is highly material to the overall valuation of the Group's properties. In the event that the Moscow Government does not grant a resolution entitling LLC Directway Investments to carry out construction of the Taganka Development, this would have a significant adverse effect on the valuation of the Group's assets described in the Industry Consultant's Report and the Group's business, prospects, financial condition and results of operations.

***The Group's rights in respect of certain developments are contractual only***

At Admission, the Group will not hold development rights in respect of the Butikovsky Development. These rights are currently held by ZAO Inpromtex ("Inpromtex"), a company indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez, the Group's founder, Chief Executive and controlling shareholder. Inpromtex is not part of the Group. In addition, at Admission, the Group will hold only a 25 percent interest in the Khilkov Development through Lafar Management Limited ("Lafar Management") (the ultimate owner of 100 percent of the Khilkov Development). Due to the nature of its formation, the Group currently only has contractual rights to acquire legal ownership of the Butikovsky Development after completion of its development. In addition, the Group currently only has contractual rights to acquire a further 25 percent interest in Lafar Management from Litonor Financial, Ltd ("Litonor Financial"), a non-Group company unrelated to Boris Kuzinez. Further details in respect of such proposed acquisitions are described in Part III of this document under "The Group's Current Property Developments" and paragraph 9 of Part VII of this document.

The Butikovsky Development and the Khilkov Development are highly material to the overall valuation of the Group's properties as valued by the Industry Consultant. Consequently, the Group is subject to a risk that the relevant counterparties to such contractual arrangements, namely Inpromtex, in relation to the Butikovsky Development and Litonor Financial in relation to Lafar Management (and therefore, indirectly, in relation to the Khilkov Development) may not fulfil their contractual obligations to the Group. Such event(s) could result in the Group failing to acquire all or part of the Butikovsky Development and/or failing to acquire the further 25 percent interest in Lafar Management (and therefore, indirectly, in the Khilkov Development), which would materially and adversely affect the Company's business and could result in a significant decline in the Company's valuation and share price.

***Stolichnoe Podvorie's right to the Khilkov Land Plot may be challenged by the Department of Federal Antimonopoly Service for Moscow***

The Group understands that a claim has been filed by the Department of Federal Antimonopoly Service for Moscow and the Moscow Region (the "FAS") against the Moscow Government, alleging that the grant of the Khilkov Land Plot to Stolichnoe Podvoriye breached the law of the Russian Federation "On Competition and Restriction of Monopoly Activities in Commodity Markets". Neither Stolichnoe Podvorie nor any other member of the Group is a party to such claim.

Stolichnoe Podvorie understands that initial hearings of a commission of the FAS in relation to the claim are to be held in early December 2006. In the interim, the Directors believe that the existence of such claim will not have the effect of delaying the execution of an investment contract or any land lease in respect of the Khilkov Land Plot. Such claim is also not expected to delay Stolichnoe Podvorie's relocation of the Khilkov Building's existing tenants. Should the claim be upheld, Stolichnoe Podvorie and therefore the Group may cease to have rights to develop the Khilkov Development. The Directors believe that, having regard to its substance, the claim is unlikely to have any material impact on the Group.

Should any such challenge to Stolichnoe Podvorie's rights to the Khilkov Land Plot result in the Group being unable to develop the Khilkov Development, either in the short term or at all, this will materially adversely affect the Group's business, prospects, financial condition and results of operations.

***Stolichnoe Podvorie's initial charter capital may not have been fully paid***

It has not been possible to establish whether Stolichnoe Podvorie's charter capital has been fully paid up. Under Russian law, a participatory share may only be transferred to the extent that it has been paid. In the



absence of payment of the charter capital, all transfers of participatory shares are considered voidable. A claim to invalidate a transaction can be filed within three years from the date of commencement of the execution of the relevant transaction. Participatory shares in Stolichnoe Podvorie's charter capital were transferred to Lafar Management in July 2006.

Furthermore, under Russian law, if the relevant company's charter capital was not fully paid within a year of the company's state registration, the charter capital may be decreased or, if the statutory minimum amount has not been paid (as of the date of the company's registration) the company may be liquidated following a claim by the state registration authorities. As a rule, such liquidation occurs only as an extreme measure and when the defect cannot be cured.

Should it be proven that Stolichnoe Podvorie's initial charter has not been fully paid, and a prior transfer of participatory shares in Stolichnoe Podvorie is successfully challenged, such transfer may be voidable to the extent that the charter capital has not been paid. Consequently, the Group's interest in the Khilkov Development may be reduced to the extent of the non-payment. Any such successful challenge will materially adversely affect the Group's business, prospects, financial condition and results of operations.

#### ***Unexpected events during construction and development could result in losses for the Group***

The Group is subject to risks typical of construction and development projects in Russia. Such projects are generally time-consuming, require significant financial investments, involve establishing and maintaining important business relationships with various parties (including without limitation, suppliers, subcontractors, utility service providers, the Moscow Government and other government regulatory authorities, and potential tenants or purchasers), and are dependent on obtaining numerous governmental and administrative licences, permits and approvals from relevant federal, regional and local Russian authorities. Any delays in obtaining, or an inability to obtain such licences, permits and/or approvals may have a material adverse effect on the Group. The Group may also incur construction costs for a development project which exceed the original estimates due to increased material, labour or other costs, which could make completion of the relevant project uneconomic. An outline of the property development process in Russia is contained in Part III of this document.

There can be no assurance that the Group will be able to establish and maintain the business relationships necessary for the success of its existing and future projects. Failure to establish and maintain important business relationships could materially and adversely affect the Group's business, prospects, financial condition and results of operations. Nor can there be any assurance that the Group will be able to obtain all the approvals, licences and permits required for each of its development projects on a timely basis and without the imposition of material conditions, or at all. Failure to obtain all necessary approvals, licences and permits on a timely basis and without the imposition of material conditions may prevent the completion of the Group's projects or lead to significant delays in completion, either of which could materially increase the Group's costs, harm the Group's business reputation and could otherwise materially and adversely affect the Group's business, prospects, financial condition and results of operations. For example, as described in Part III of this document, although it is unclear whether the construction of the Tsvetnoy Development actually contradicts town planning requirements, LLC Central Market ("Central Market") may be required to obtain town planning substantiation for construction of the Tsvetnoy Development. If required, there can be no assurance that Central Market may be able to obtain such town planning substantiation in a timely manner or at all. Theoretically, the absence of any construction approvals required by state authorities may result in such structure being deemed to be an unauthorised construction, potentially leading to its subsequent demolition pursuant to a court order. Furthermore, construction of the Butikovsky Development may not comply with applicable construction zoning, and Inpromtex may be required to obtain town planning substantiation for construction of the Butikovsky Development. Again, there is no guarantee that Inpromtex or the Group will, if required, be able to procure issuance of the town planning substantiation in a timely manner or at all.

Failure to obtain, or delays in obtaining, town planning substantiation, if required, in connection with the Butikovsky Development or the Tsvetnoy Development or any challenge to any town planning substantiation to be received in respect of any of the Group's future developments could result in the Group having to abandon the development of such projects in their entirety or incur significant additional costs, which would materially and adversely affect the Group's business, prospects, financial condition and results of operations.

Furthermore, access to utilities, such as electricity, water, telecommunications and sewage services is dependent upon the continued and timely co-operation of third parties and any delay, interruption or

inability to ensure the supply of these and other utilities may cause a delay in completing any or all of the Group's developments and any such delay may adversely affect the Group's business, prospects, financial condition and results of operations.

***The Group's acquisition of property relating to the Ostozhenka Development may be subject to challenge***

The acquisition of ownership rights to real estate in Russia is a technical process, and failure to comply fully with a variety of legal and other requirements may invalidate or materially affect such acquisitions. For example, there is a risk that the payment of the charter capital of LLC Ostozhie ("Ostozhie") was effected in a manner inconsistent with Russian law. The contribution to Ostozhie's charter capital required to be made was (i) 228,900 Roubles (approximately US\$8,500) in cash (five percent of the total charter capital) by an individual connected to Boris Kuzinez and (ii) the Ostozhenka Building by Inpromtex in the amount of 4,578,000 Roubles (approximately US\$169,000). The Ostozhenka Building had a real appraised monetary value of 964,500 Roubles (approximately US\$35,600). However, the corporate documentation effecting the contribution to Ostozhie's capital indicated that the valuation of the Ostozhenka Building was itself 4,578,000 Roubles, and did not indicate that lease rights to a land plot within the footprint of the Ostozhenka Building, with an appraised monetary value of 3,613,500 Roubles (approximately US\$133,400) were formally contributed towards payment of Ostozhie's charter capital, but that only the Ostozhenka Building itself was contributed towards such charter capital. Therefore, there is a risk that, as the nominal value of Inpromtex' contribution was stated to exceed the appraised monetary value of the Ostozhenka Building as estimated by the independent valuation agent, Ostozhie may be liquidated. This risk is mitigated by the fact that an acquirer of an ownership right to a building acquires the same rights to a land plot where the building is located as the previous owner of the building. Therefore, Ostozhie, through the acquisition of the Ostozhenka Building, automatically acquired lease rights to the land plot under the Ostozhenka Building by virtue of law. Further, the Group has obtained clarification from the relevant valuation agent in respect of the original capital contribution. The valuation agent's clarification states that as the land lease rights follow the ownership of the Ostozhenka Building as a matter of Russian law, and for valuation purposes, the contribution of the Ostozhenka Building to Ostozhie's charter capital equates to the concurrent contribution of the lease rights. However, there can be no assurance that the valuation agent's report is sufficient evidence to eliminate the risks described above.

***The Group may not be able to acquire the share in a development held by the Moscow Government***

Where a developer acquires development rights under an "investment contract" with the Moscow Government, the Moscow Government generally retains an interest in such developments. Such interest is generally up to 50 percent of the completed development, being determined on a case by case basis. The Moscow Government's share may be lower where the developer agrees to incur additional expenditure in relation to the development (relating to, for example, enhancements in City of Moscow infrastructure), where such expenditure is reflected in the relevant investment contract. The Moscow Government generally agrees to the developer buying out its share of the development prior to, or upon, completion of construction. The amount to be paid by the developer for the Moscow Government's share of the completed development is intended to reflect the fair market value of such share, and is determined by a valuation of such share carried out by a valuer chosen by the Moscow Government. Once the valuation of such share has been approved by the Moscow Government, the developer may, subject to the Moscow Government's over-riding discretion not to sell, acquire the Moscow Government's share of the completed development. Unless specified in the relevant investment contract, the developer has no ability to require the Moscow Government to sell its interest in the completed development to the developer. For example, pursuant to the Butikovsky Investment Contract and the Zemliano Co-Investment Contract, Inpromtex and LLC Dinas ("Dinas"), respectively, cannot compel the Moscow Government to sell its share in each such development to them.

Accordingly, while the Company's strategy with respect to each of its existing and future developments subject to investment contracts is to buy out the Moscow Government's share, there can be no assurance that the Company will be successful in implementing this strategy or that it will be able to do so on financially acceptable terms. There can be no assurance that the Moscow Government will not try to increase its percentage ownership of any project at any time or seek to increase the payment required to transfer ownership to the Company.

Furthermore, in circumstances where the Moscow Government retains its ownership in a development, the Company may be required to assume disproportionate construction costs as investment contracts generally require the developer to finance 100 percent of the construction costs.

An outline of the property development process in Russia, including with respect to investment contracts, is contained in Part III of this document.

***Toucho Investments may not be able to acquire a further 25 percent of the shares in Lafar Management***

Pursuant to the Lafar Management Share Purchase Agreement dated 19 September 2006, Litonor Financial agreed to sell 50 percent of the issued share capital of Lafar Management to Toucho Investments. The total consideration payable by Toucho Investments for such acquisition was US\$24,822,480, payable in installments.

Under the Lafar Management Share Purchase Agreement the Company intends that Lafar Management will pay the remaining consideration of US\$20,000,000 to Litonor Financial, broadly in accordance with progress of relocation of existing tenants of the Khilkov Building. There is a risk under Cypriot law, the governing law of the Agreement, that the Lafar Share Purchase Agreement may be unenforceable to the extent that the parties thereto are unable to agree a date for the payment of the remaining US\$20,000,000 consideration. If the parties are unable to agree a payment date for the remaining US\$20,000,000, this would result in Toucho Investments being unable to acquire the remaining 25 percent of the shares to which it is entitled in Lafar Management. Any such event would have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

***The Group may take on additional costs and liabilities associated with existing lease obligations***

The Group may in future acquire as development sites, existing office, retail or residential buildings that have existing tenants. In so doing, the Group may acquire lease liabilities and obligations in connection with such acquisitions. As a consequence, the Group's earnings may be adversely affected to the extent that the Group is obliged to give continued occupation to tenants with lease payments below the then market rate for such development. In addition, the Group may incur costs in obtaining vacant possession of a site where there are existing tenants who have occupation rights that are protected by state regulations and the Group is required to pay compensation to such tenants. Alternatively, the Group may be obliged to relocate such tenants, which could delay the development of the site and add to the cost of development.

Where a residential building intended for development contains existing owners or occupiers of premises within that building, the owners or occupiers of such residential premises must be provided with either monetary compensation or new apartments. In respect of the Zemlianoy Development, such relocation is an obligation of DIPS, a City of Moscow authority, and the Company cannot control the timing of such relocation. However, in respect of the Khilkov Development, such relocation is an obligation of LLC Stolichnoe Podvorie ("Stolichnoe Podvorie"), a company in which the Group currently holds a 25 percent interest. While the Group attempts to factor such costs into its business plans and budgets in respect of proposed developments, additional unexpected costs, delays and disputes may arise in the course of such relocation.

***The Group may be required to amend or extend existing approvals, permits or leases relating to its developments***

The Group must obtain permits and/or approvals from a variety of federal, regional and municipal authorities in connection with each of its developments. Such permits and/or approvals may require amendment or extension to account for the Group's changing circumstances from time to time. There can be no assurances that such amendments, permits, approvals or extensions will be granted by the relevant authorities, either in a timely fashion, or at all. Failure to obtain such amendments, permits, approvals or extensions may adversely affect the Group's ability to complete its existing developments in the manner envisaged, or at all. Examples of relevant issues potentially affecting the Group in this regard are set out below.

The Tsvetnoy Act of Permitted Use permits the construction of a complex with a total area of 32,587 square metres. As the area of the Tsvetnoy Development is not permitted to exceed the parameters specified in the Tsvetnoy Act of Permitted Use, an amendment to the Tsvetnoy Act of Permitted Use may be required to account for the Tsvetnoy Development's intended gross internal area of 38,653 square metres. An amendment may also be required to permit construction of up to seven floors above ground. The Group is considering whether clarification of these matters is required from the relevant authorities. If the Tsvetnoy Development does not comply with the requirements of the Tsvetnoy Act of Permitted Use, the Tsvetnoy Development risks being deemed to be an unauthorised structure, potentially leading to the demolition of that part exceeding the maximum area defined in the Tsvetnoy Act of Permitted Use.

Further, Central Market was granted a right to enter into a short term lease in respect of the Tsvetnoy Additional Land Plot for the purpose of facilitating construction of the Tsvetnoy Development. The term of such lease is to be for six months. Following the expiry of such period, the Group will need to apply for an extension of such lease. Although such extensions are usually granted, there can be no assurance that it will be. The Group is in the process of formalising a lease agreement with respect to the Tsvetnoy Additional Land Plot.

The Butikovsky Act of Permitted Use allows for construction of up to a total area of 4,710 square metres. As the area of the Butikovsky Development is not permitted to exceed the parameters specified in the Butikovsky Act of Permitted Use, an amendment to the Butikovsky Act of Permitted Use may be required to account for the Butikovsky Development's intended gross internal area of 8,929 square metres. The Group is considering whether clarification of this matter is required from the relevant authorities. If the Butikovsky Development does not comply with the requirements of the Butikovsky Act of Permitted Use, the Butikovsky Development risks being deemed to be an unauthorised structure, potentially leading to the demolition pursuant to a court order of that part exceeding the maximum area defined in the Butikovsky Act of Permitted Use.

The Butikovsky Act of Permitted Use was registered on 12 October 2005 and was valid until 12 October 2006. Ordinarily, an Act of Permitted Use would be approved by a resolution of the Moscow Government approving construction of the relevant development prior to the expiry of that Act of Permitted Use. Such a resolution is ordinarily required before an Act of Permitted Use becomes effective. No such resolution has yet been received in respect of the Butikovsky Development. However, prior to expiry of the Butikovsky Act of Permitted Use, Inpromtex received a construction permit. Therefore the Directors believe that it is unclear whether Inpromtex actually still requires either an extension of the Butikovsky Act of Permitted Use or a resolution of the Moscow Government approving such Act of Permitted Use. The Group is considering whether clarification of this matter is required from the relevant authorities. In the event that any such extension and resolution are required, there can be no assurance that the Group will be able to obtain such resolution.

An amendment agreement to the Butikovsky Investment Contract dated 4 September 2006 formalised the extension of the term of the Butikovsky Investment Contract until 31 December 2006. Following 31 December 2006, the Group will need to apply for an extension of the Butikovsky Investment Contract. Although such extensions are usually granted, there can be no assurance that such an extension will be granted.

The Zemlianoy Co-Investment Contract anticipates construction of an administrative non-residential building with a total area of 9,480 square metres. The Group currently intends that the Zemlianoy Development will have a gross internal area of 10,491 square metres. As such, it is likely that Dinas and DIPS will need to agree to amend the Zemlianoy Co-Investment Contract to reflect such increased space. Although such amendments are commonly agreed to by City of Moscow authorities, there can be no assurance that DIPS will agree to such an amendment.

The Ostozhenka Development remains at a concept design stage, and the physical land area to be covered by the development has not yet been conclusively determined. As such, the Directors have not yet established whether it is necessary to transfer the 2006 Ostozhenka Land Lease into the Group in order to construct the Ostozhenka Development. Following Admission, the Group will have no formal right to require Inpromtex to transfer the land plot relating to the 2006 Ostozhenka Land Lease into the Group. Furthermore, as Inpromtex has yet to register the 2006 Ostozhenka Land Lease with the Department of the Federal Registration Service for Moscow, such lease may be considered by a court as not yet having been entered into and therefore as being unenforceable.

In the event that the Group requires land in addition to the 2001 Ostozhenka Land Lease to construct the Ostozhenka Development (and whether such land is an alternative, or in addition to, the 2006 Ostozhenka Land Lease), the Group will need to obtain the grant of a lease for such additional land plot. Should the Moscow Government require the Group to enter into an investment contract in respect of such land, the Moscow Government may require an ownership share in the completed Ostozhenka Development. There can be no assurance that the Moscow Government will grant any such additional land plot. Failure to obtain relevant land lease rights may result in the Group being unable to proceed with the development in a manner preferred by the Group, which may have an adverse effect on the Group's business, prospects, financial condition and results of operations.



Each of the 2001 Ostozhenka Land Lease and, should it be relevant to construction of the Ostozhenka Development, the 2006 Ostozhenka Land Lease, contains a requirement that the tenant (i.e. the Group) use the relevant land plot in accordance with the purpose specified in the relevant lease. Neither such lease currently provides for the possibility of carrying out construction on the relevant land plots. The purpose of use of such leases can be changed by virtue of a resolution of a competent authority of the Moscow Government. It is likely that construction of the Ostozhenka Development will require such a resolution, and if so, the Group will need to obtain such a resolution in respect of the relevant land plot. Whether such a resolution will be forthcoming will depend on a variety of circumstances, and there can be no assurance that the Group will be able to obtain such a resolution.

***Inpromtex retains the right to alter development plans for Butikovsky***

Pursuant to the Butikovsky Agreement on Share Participation and the Butikovsky Preliminary Agreement, Nospelt Limited (“Nospelt”), a member of the Group, is required to agree to any modifications made by Inpromtex to the design documentation in respect of the Butikovsky Development, provided that any such modified design documentation receives all necessary regulatory approvals and the total area of the premises to be transferred to Nospelt under each agreement remains unchanged. As such, the Group has no effective control over the final design of the Butikovsky Development. Accordingly, there is a risk that any such modifications made by Inpromtex to the design of the Butikovsky Development may have an adverse effect on the value and/or marketability of the completed Butikovsky Development. Any such effect will have an adverse effect on the Group’s business, prospects, financial condition and results of operations.

***Delays in commencement or completion of construction may affect the Group’s rights under its leases***

City of Moscow legislation requires that a developer formalises land lease rights in order to carry out construction on a land plot. As described in Part III of this document under the heading “Overview of the Property Development Process”, there are three basic ways to acquire land lease rights for construction purposes, being a short term land lease pursuant to an investment contract, a long term land lease acquired from the Moscow Government and acquiring rights under an existing long term land lease.

As a general rule, short term land leases granted pursuant to an investment contract are entered into for the intended term of construction. The Moscow Government may refuse to renew the expired short term land lease if construction is not completed by the expiration date required in the relevant land lease, on the ground that the tenant did not comply with the substantial requirements of the lease. For example, the Butikovsky Land Lease (rights acquired pursuant to an investment contract) expired on 31 December 2005 but, by an undated additional agreement, was subsequently extended to 31 December 2006. Although it is not possible to determine whether the term of the extended lease is greater than one year, such agreements with a term of greater than one year require registration with the relevant state authority. In the absence of such required state registration, the additional agreement to extend such lease may not have been validly concluded. Inpromtex is not seeking such registration as the time required to complete such registration is likely to amount to a substantial portion of the remaining term of the lease. As the construction of the Butikovsky Development is not anticipated to be completed until the second quarter of 2007, Inpromtex will need to seek a further extension of the Butikovsky Land Lease. Although the relevant Moscow state authorities are not obliged to extend such lease, it is common practice to grant such an extension in order to enable completion of construction of a development which has already commenced, however, no assurance can be given that such extension will be forthcoming.

Where rights are held pursuant to a long term land lease acquired from the Moscow Government, such leases define a specific term during which construction must be completed. Theoretically, failure to complete construction by the time specified may result in unilateral termination of the land lease agreement by the Moscow Government. For example, under the Tsvetnoy Land Lease (rights acquired pursuant to an existing long term land lease), the Group was technically required to have completed construction by 1 February 2004. The Tsvetnoy Development has not yet been completed. However, Central Market acquired rights under this land lease agreement only on 14 October 2004, which mitigates the risks related to the failure of the Group to comply with such obligations. The risk of unilateral termination of the Tsvetnoy Land Lease by the Moscow Government is further mitigated by the Moscow Government issuance of Resolution No. 1913-RP dated 28 September 2004, which approved construction of the Tsvetnoy Development up to the end of 2007. Further, Central Market was granted a right to enter into a short term lease in respect of the Tsvetnoy Additional Land Plot for the purpose of facilitating construction of the Tsvetnoy Development. The term of such lease is to be for six months. Following the



expiry of such period, the Group will need to apply for an extension of such lease. Although such extensions are usually granted, there can be no assurance that it will be. The Group is in the process of formalising a lease agreement with respect to the Tsvetnoy Additional Land Plot. However, there can be no assurance that such lease agreement will be obtained in a timely manner, or at all.

As a general rule, rights acquired under an existing long term land lease do not provide for construction activities as the purpose of use of the land, but usually for use of the land plot for operation of the existing building. Such cases require this purpose of use to be amended in order to allow construction activities. As a general rule, the resolution of the Moscow Government required to amend such purpose of use defines the specific term during which construction must be completed. Non-compliance with such term generally does not lead to unilateral termination of the long term land lease agreement. However, there is a risk that a building, which will be constructed upon expiration of such term, may be considered an unauthorised structure. In order to reduce such risk, the term permitting construction is required to be extended. Although such extensions are often granted by the Moscow Government, there is no assurance that such extension will be granted. In some cases, rights acquired under such leases may provide specific terms for unilateral termination of the long term land lease. Completion of construction can be such a specific term.

Termination of any of the Company's long term or short term leases due to failure to initiate or complete construction during the time period specified in the relevant lease agreement may have an adverse effect on the Group's business, prospects, financial condition and results of operations. For the purposes of its valuation, the Industry Consultant has assumed that no such events will occur and, if necessary, short term leases will be extended or renewed by the Moscow Government to facilitate any deferred commencement or completion of construction by the Company.

#### ***Land lease expiry or termination***

The Group may acquire investments where it has only a leasehold interest in the land (but ownership of any building on it). The land lease is likely to be capable of being terminated early in various circumstances; ordinarily this would be in the event of breach of the relevant lease provisions, but there may be other circumstances not provided for in the relevant lease. In addition, the land lease may not contain renewal rights. In the event of termination of a land lease (whether during the term, generally for breach, or at the expiry of the term) under the Civil Code, there is a risk that the landowner will acquire the right to buy the building in question on that land, from the Group, for an unspecified price, but to be determined by a court. Due to a lack of court practice or precedent on how these provisions will actually operate, the Group's position, and the ongoing status of its investment, will be unclear upon termination of any land lease rights.

#### ***Zoning restrictions and local opposition can delay or preclude construction***

If the Group wishes to develop a property on a particular site, the zoning of such site must permit the development of office, retail and/or residential activities of the type intended for development by the Company. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, the Group will be required to apply for the required zoning classifications. This procedure may be protracted, particularly where the bureaucracy is cumbersome and inefficient, and the Group cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable the office, retail and/or residential developments to be completed ahead of any competitor development, or at all. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. In addition, arbitrary changes to applicable zoning by the relevant authorities may jeopardise projects which have already commenced. Therefore, if the Group does not receive zoning approvals or if the procedures for the receipt of such zoning approvals are delayed, the Group's costs will increase, which will have an adverse effect on the Group's business, prospects, financial condition and results of operations.

For example, with respect to the Ostozhenka Development, the Ostozhenka Cadastre Certificate dated 17 July 2006 defines the zoning of the district where construction of the Ostozhenka Development will be carried out. Pursuant to the Ostozhenka Cadastre Certificate, the Ostozhenka Development will be located in an "administrative and business functional" zone. Such construction zoning is defined as "low-density, predominantly of 1–2 floors" and the landscape zoning as "accomplished and developed". Construction of the Ostozhenka Development will be required to comply with these zoning requirements. City of Moscow legislation does not define exactly which kind of buildings may be constructed within an area with the above zoning parameters. Based on the Ostozhenka Cadastre Certificate, it is unclear that

this zoning will permit construction of the Ostozhenka Development, which is intended to be a solely residential development. When the Group seeks to obtain an Act of Permitted Use of Land Plot in respect of the Ostozhenka Development, such document may clarify whether such construction is permitted, and there is a possibility that construction of the Ostozhenka Development may not be permitted.

***The rentals payable by the Group in respect of land leases may not be within its control***

The Group has entered, and expects to enter into in the future, lease agreements in respect of properties being, or to be, developed by it, with the Moscow Government. Once the initial annual rental amount is set, the Moscow Government can, without the consent of the Company, change the amount of the rent payable if legislation establishing the rates of lease rental for the use of state-owned land is changed. Any such action will increase the rent payable by all tenants of the Moscow Government within that category of tenants to which the increase applies, and not just members of the Group. Furthermore, the right of the Moscow Government to increase rents is commonly provided for in the terms of the relevant lease. Rental rates are established from time to time by the Mayor of Moscow pursuant to Article 5 of the Law on Payable Use of the Land. As such, relevant lease agreements must comply with such resolutions of the Mayor of Moscow, which includes the Tsvetnoy Land Lease, the Butikovsky Land Lease, the 2001 Ostozhenka Land Lease and, to the extent relevant, the 2006 Ostozhenka Land Lease. Significant increases in the rental rates payable by the Company could negatively impact the Company's business, prospects, financial condition and results of operations.

***The Group will be dependent on its ability to maintain suitable rental levels***

The Group will be dependent on its ability to attract third parties to enter into leases for its retail and office properties on favourable rental terms. The Group may find it difficult to attract third parties to enter into leases, particularly during periods when market rents are increasing, or when general consumer activity is decreasing or if there is competition for tenants from competing developments. Upon their expiration, leases may not be renewed by existing tenants, the space may not be re-leased to new tenants or the terms of renewal or re-leasing (including the cost of required renovations or concessions to tenants) may be less favourable to the Group than previous lease conditions. This may include tenants seeking to negotiate long rental periods without a rent review. Furthermore, a tenant may, from time to time, experience a weakened financial condition or may become bankrupt or insolvent, which could result in the tenant's default in meeting its rental obligations. Insolvent tenants may also seek the protection of applicable insolvency laws, which could result in the early termination of their lease obligations, resulting in a reduction of the Group's rental revenues. If the Group is unable to re-let or renew lease contracts promptly or if the rentals upon such renewal or re-leasing are significantly lower than expected, the Group's business, prospects, financial condition, results of operations and the value of its real estate assets could be adversely affected.

***The Group's financial performance is dependent on local real estate prices and rental levels***

The success of an investment in the Ordinary Shares is dependent, in part, on real estate prices and rental levels in Moscow. There is no assurance that current real estate prices and rental levels will remain stable or increase. There is also no assurance that the Group will be able to sell or let its developments profitably. The Group's financial performance depends, among other things, on the economic situation in Moscow. There can be no guarantee that the Moscow real estate market will continue to develop, or develop at the rate anticipated by the Group, or that the market trends anticipated by the Group will materialise.

Should market conditions or other factors in the period prior to completion develop, there is a risk that the value of completed properties would not be sufficient to cover all the development costs incurred.

***The Group may encounter competition for properties, tenants and purchasers from other development companies***

A number of other real estate companies, developers and individual owners are likely to compete with the Group for leasing revenues and properties that become available in all sectors in which the Group operates. In the future, this may include increasing interest in real estate in Russia, and in particular, Moscow, from companies and investors based in Western countries, many of whom may have greater financial resources than the Company. The Group's retail properties will compete with other retail properties in seeking suitable tenants. Similarly, the Group's office properties must also compete with an increasing stock of office properties to attract and retain tenants. The Group will also have to compete

with an increasing supply of residential properties in prime locations when seeking to attract purchasers for residential units in such properties. No assurance can be given that the Group will be able to compete successfully in the future.

***The Group may not be able to secure suitable locations for development***

The choice of suitable locations for the construction of office, retail and/or residential developments is an important factor in the success of individual projects. In particular, ideally for office and/or retail development, these sites should be located: (i) within or near to the city centre, with well-developed transportation infrastructures (road and rail) in close proximity to facilitate customer access; or (ii) within local areas with sufficient population to support the developments. If the Group is not able to find sites which meet these criteria, either at all or at viable prices, this may materially adversely affect the Group's business, prospects, financial condition and results of operations.

Although the Directors believe that opportunities for the advantageous acquisition of properties for development will exist for the Group in the future, there can be no assurance that such acquisition opportunities will continue to arise or, if any such acquisition opportunity were to present itself, that the Group will have access to any necessary financing (on acceptable terms or at all) or to the management and other resources necessary to consummate the acquisition.

Moreover, if for whatever reason the Group is unable to consummate some of its current pipeline of development projects, either on a timely basis or at all, the Group may not be able to invest in further real estate development projects for a significant period of time, which may harm the Group's business, prospects, financial condition and results of operations.

***Acquisition of Russian real estate properties from third parties may not be successful***

In accordance with the Group's strategy of seeking development and investment opportunities, it may acquire properties for development from third parties. Acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties, as well as the potential improvements needed to increase financial returns. In particular, there can be no assurance that unanticipated problems (such as changes in laws, or the interpretation or application thereof, relating to the ownership or use of real estate, defects in title to such real estate acquired by the Group, as well as limited ability to insure against such events in Russia) and undisclosed liabilities or contingencies (such as the existence of hazardous substances or other environmental liabilities) will not arise with respect to the acquired properties or that the acquired properties will achieve, upon completion of the relevant development project, the anticipated rental rates or occupancy levels factored into the pricing of such acquisitions.

***The real estate values and appraisals referred to in this document may vary over time and may differ from the prices of actual transactions***

The valuation of real estate and real estate related assets is inherently subjective. As a result, valuations are subject to uncertainty. For example, the Industry Consultant's valuations are not based upon the Company's planned use of the relevant properties, and has made no judgement as to whether the Company may achieve a higher return or make better use of the properties as a result of its experience, expertise, commercial network, market insight or any advantage of scale.

Moreover, all real estate valuations, including those contained in the Industry Consultant's Report, are made on the basis of assumptions which may not prove to reflect the accurate fair market value of the portfolio.

The Industry Consultant's Report specifically assumes, among other things, that:

- To the extent not already held, all required planning permission consents and design approvals in respect of the Group's developments will be received within an acceptable timescale and that there are no issues that would materially delay the issuance of the required consents or approvals or have a material effect on value or marketability. There is a risk that not all such consents will be obtained in the timeframe anticipated by the Group, if at all. A failure to obtain, or a delay in obtaining, such consents is likely to have a negative impact on the value of the relevant asset. In addition, the value of development assets contained in the valuation report will be affected by the estimated cost of developing such assets.

- In order to assess the capital value of a completed development, such property is to be held by the Group following completion of construction for a period of time until the net income from such property stabilises, and that the property is then sold. This is a valuation technique and does not necessarily represent the intention of the Group.
- No lease rights held by any Group Company will be terminated due to failure to initiate or complete construction during the time periods allocated for such events and, if necessary, that short term leases will be extended or renewed by the Moscow Government to facilitate any deferred commencement or completion of construction by the Company.
- In the event that a development's intended design differs from the relevant design documentation and/or governmental approvals, or where such design documentation and/or governmental approvals do not exist, that approvals for such design documentation, and any required variation, will be forthcoming from the Moscow Government without material cost or delay.
- Each development will be built either prior to, or in accordance with, valid planning permissions and will be occupied and used without any breach of planning or building regulations.
- Void periods may exist, the extent of which may depend upon the property class and the relative merits of each anticipated project.
- Each lease (or leases) relating to a property (to the extent such leases currently exist) can be extended, effectively in perpetuity, on similar terms to the existing leases.
- Each lease (or leases) relating to a property is, or will be, held by a special purpose vehicle, that shares in such special purpose vehicle can be sold, and that no other assets or liabilities are held by that special purpose vehicle that might affect the sale of the shares of that special purpose vehicle.
- In assessing the gross development values of the completed commercial elements of the relevant properties, that such properties will be leased for a five-year term on a "triple net" basis. The Group intends to enter into medium or long term leases, depending on market conditions. Therefore, the Group's leasing strategy may not always be consistent with the stated assumption.
- No hazardous or suspect materials or techniques have been, or will be, used in the construction of any of the Group's developments, including assuming the presence or absence of high alumina cement, calcium chloride, asbestos and other deleterious materials.
- There are no adverse ground conditions (including contamination) that would affect building costs, and in particular that the underground parking levels will be capable of development in the case of the Taganka Development, as there are underground metro lines in close vicinity of the site. Should underground levels not be physically possible, this will adversely impact on the financial viability of the Taganka Development.

In particular, as derived from the above, the Industry Consultant's Report assumes that all necessary approvals, permits, and resolutions of the Moscow Government will be obtained to enable the Group to develop the Taganka Development.

Such assumptions may or may not all prove to be accurate in due course. To the extent that such assumptions do not prove accurate, this may have an adverse effect on the valuation of the Group's assets and the business, prospects, financial condition and results of operations of the Group.

The valuation appraisals referred to in this document are made as of certain dates, and there can be no assurance that evaluations at more recent dates would not produce different values. The market value of real estate properties may decline significantly over time due to various factors. Certain assumptions and valuation techniques were used for the preparation of the Industry Consultant's Report, and using different assumptions or valuation techniques may produce different valuation results. In addition, the Russian property market is poorly developed and is rarely transparent. Therefore, the appraised market values should not be taken as an indication of the prices at which the Group may be able to effect sales of its real estate properties in the future. For example, in its report, the Industry Consultant's estimate of the market value of each of the developments has primarily been derived using comparable recent market transactions on arm's length terms. Such method may produce uncertain results in emerging markets such as Russia and due to the lack of availability of publicly available information and comparable transactions.

Further, in preparing its report, although the Industry Consultant has considered the Company's business plan to develop each project described in this document, the valuations contained in the Industry

Consultant's Report reflects its opinion of an appropriate development that could reasonably be expected to form the basis of an offer for any of such projects by a third party. Therefore its valuations do not necessarily reflect the Company's intended investment/development programme. On this basis, there is a risk that the valuations contained in the Industry Consultant's Report may not represent the actual value of the Company's completed developments.

***The Industry Consultant was not able to determine the boundary of certain sites***

In preparing its report, the Industry Consultant was unable to accurately determine the extent of the site boundaries in respect of all of the Group's developments, with the exception of the Butikovsky Development, due to such site boundaries not being clearly identifiable. The inability to accurately determine the extent of the boundaries of a particular site exposes the Group to potential risks in respect of such site, including regarding disputes with the owners and/or tenants of neighbouring properties and/or with applicable governmental authorities. Such disputes may impact upon the Group's ability to complete or utilise its developments, which could have a material and adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group depends on third party contractors to construct its developments***

The Group relies on third party contractors for its construction activities. If the Group cannot enter into contracting arrangements on terms acceptable to it or at all, the Group will incur additional costs which will have an adverse affect on its business. The competition for the services of quality contractors may cause delays in construction, thus exposing the Group to a loss of competitive advantage. Contracting arrangements may be on less favourable terms than would otherwise be available, which may result in increased development and construction costs. By relying on contractors, the Group becomes subject to a number of risks relating to these entities, such as quality of performance, performance delays, construction defects and the financial stability of its contractors. A shortage of workers would have a detrimental effect on the Group and its contractors and, as a result, on the Group's ability to conclude the construction phase on time and within budget and therefore have a material and adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group may be held liable for design or construction defects of third party contractors***

The Group relies on the quality and timely performance of construction activities by third party contractors. Claims may be asserted against the Group by local government and zoning authorities or by third parties for personal injury and design or construction defects. These claims may not be covered by the professional liability insurance of the contractors or of the architects and consultants and may give rise to significant liabilities on the part of the Company.

***The Group may be affected by shortages in raw materials and employees***

The building industry may from time to time experience fluctuating prices and shortages in the supply of raw materials as well as shortages of labour. The Group bears the risk of changes in the global prices of concrete and iron, rather than paying a premium for its contractors to bear the risk though a fixed price contract for each of the developments. Furthermore, the inability to obtain sufficient amounts of raw materials and to retain efficient employees on terms acceptable to the Group may result in delays in the construction of the Group's developments and increase in the cost of such developments and, consequently may have a material adverse effect on the results of the Group's operations. The Group does not hedge raw material prices and does not seek to enter into fixed price raw materials contracts. Consequently, the Group is exposed to risks of fluctuating prices of such raw materials.

***The Group may incur environmental liabilities***

The Group may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a site owned or leased by it, regardless of whether a member of the Group was responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remediation of such substances may be substantial and/or may result in significant budget over-runs and critical delays in construction schedules. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect the Group's ability to sell or lease the development or to raise finance using the real estate as security. Additionally, any future sale of the development may be generally subject to indemnities to be provided by the Group to the purchaser against



such environmental liabilities. Accordingly, the Group may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations, as may be amended over time, may also impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release can form the basis for liability to third persons for personal injury or other damages. Any environmental liability may significantly increase the cost of a development and/or cause delays, which could have a material adverse effect on the profitability of that development and the results of operations of the Group.

There is an increasing awareness of environmental issues in Russia. The Group cannot be certain that all sites acquired or leased by it will be free of environmental pollution. The Group does not generally commission environmental assessments of properties in respect of which it obtains leases. If a property that the Group acquires turns out to be polluted, such a finding will adversely affect the Group's ability to construct, develop and, where applicable, operate, a office, retail or residential development on such property, and may cause the Group to suffer expenses incurred in cleaning up the polluted site which may be significant.

Furthermore, environmental laws, rules and regulations may prohibit or limit the Company's ability to develop its projects. For example, in relation to the Butikovsky Development, the applicability of certain water protection restrictions are unclear—see the risk factor set out in this Part II below under the heading—"Inconsistencies in legislation relating to land".

***Any deterioration of the Group's relationships with governmental authorities may have a negative effect on the Group's business***

In practice, Russian governmental authorities have a high degree of discretion when allocating land and approving real estate projects. The Group's business therefore depends on maintaining positive working relationships with the relevant governmental authorities. The Group's business would be adversely and materially affected if its relationships with such governmental authorities deteriorate in the future.

***Limited geographic, sectoral and portfolio diversification***

The Group's projects currently relate to office, retail and residential properties in central Moscow. As a result of this geographic and sectoral concentration, any change in the Russian federal, regional or local political or regulatory environment, any decline in economic activity in Russia generally or Moscow in particular, and any downturn or weakness in the local real estate market due to changes in the level of demand for or supply of office and retail space or otherwise, may each adversely affect the Group's business, prospects, financial condition, results of operations and the value of its properties.

***The Group's insurance coverage may be inadequate and the occurrence of significant uninsured events could materially and adversely affect the Group's business, prospects, financial condition and results of operations***

The insurance industry in Russia is at an early stage of development and, accordingly, the insurance cover available to the Group is relatively limited. Many forms of insurance common in more developed countries are not yet available in Russia. The Group's properties could, in the event the Group operates a retail, office or residential development after practical completion of the development, suffer physical damage caused by fire or other causes, resulting in losses which may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, terrorism or acts of war, that may be uninsurable or are not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds may be inadequate to restore the Group's economic position with respect to the affected developments. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose capital invested in the affected developments as well as anticipated profits from that development. In addition, the Group could be liable to repair damage caused by uninsured risks. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

### *Joint venture development projects*

Development projects may, from time to time, be carried out by members of the Group together with investment partners, where the Group may not own a controlling interest. Such arrangements involve risks that are not present with projects in which the Group owns a controlling interest, including:

- the possibility that the Group's investment partner might at any time have economic or other business interests that are inconsistent with those of the Group;
- the possibility that the Group's investment partner may be in a position to take action contrary to the Group's instructions or requests, or frustrate the execution of acts which the Group believes to be in the best interests of any particular project;
- the possibility that the Group's investment partner may have different objectives from the Group in respect of a particular development, including with respect to the appropriate timing and pricing of any sale or refinancing of a development and whether to enter into agreements with potential contractors, tenants or purchasers;
- the possibility that the Group's investment partner might become bankrupt or insolvent; and/or
- the possibility that the Group may be required to provide finance to make up any shortfall due to such investment partner failing to provide such equity finance or to furnish any required collateral to financing banks.

Disputes or disagreements with any of the Group's joint venture partners may result in significant delays and increased costs associated with the development of the Group's properties. For example, under the Lafar Management Partnership Agreement, each of Toucho Investments Limited ("Toucho Investments") and Litonor Financial has the right to appoint and remove one director of Lafar Management. As such, it is expected that this structure creates a deadlocked joint venture. As such (if and when Toucho acquires the remaining 25 percent of Lafar Management), Lafar Management is not intended to be consolidated as a subsidiary in the Group's financial statements.

Even when the Group has a controlling interest, certain major decisions (such as whether to sell, refinance or enter into a lease or contractor agreement and the terms on which to do so) may require the joint venture partner or other third party approval. If the Group is unable to reach or maintain agreement with the joint venture partner or other third party on the matters relating to the operation of its business, its business, prospects, financial condition and the results of its operations may be materially adversely affected. For example, in respect of the Zemlianoy Development, in which the Group will hold a 95 percent interest in the completed development, the Zemlianoy Co-Investment Contract does not provide any right for the Group to request and review the preliminary design and construction documentation or request reports from DIPS on the construction process. Given that DIPS may conclude agreements with the non-Group entity that holds the development licence in respect of the Zemlianoy Development without the approval of, or coordination with, the Group, the Group does not control the construction of the Zemlianoy Development and therefore cannot directly control the quality or costs associated with the project. See "The Group's Current Property Developments—Current Status of the Zemlianoy Development".

### *The Group has no operating history regarding commercial assets, which may make it difficult to evaluate its prospects*

Although members of the Group's management have real estate and investment experience, the Company itself is newly incorporated and has no operational or financial history. Accordingly, it is not possible to identify long term trends and developments in the Company's business, including its ability to monitor and control costs in accordance with development budgets. In addition, the Group's current developments represent a more significant scale of operations and are likely to involve increased complexities from those that Boris Kuzinez and his team have previously experienced. Further, the timeframe to complete the current developments is relatively short, with five current developments and one pipeline development intended to be completed within the next three years. In evaluating the Group's future prospects, potential investors should consider the risks, expenses, uncertainties and obstacles that the Group may face in implementing its strategy and in conducting its current and planned business. The lack of longer-term operational and historical audited financial data for the Group may provide prospective investors with less information on which to base their evaluation of an investment in the Ordinary Shares than is available in offerings of securities by companies with such data.

***Shareholders will not know in which projects or properties the Company may invest in the future, and must rely on the Directors to select them***

Investors must rely on the Company, through its Directors, to locate and acquire suitable investment properties or projects. Shareholders will not participate in evaluating these investment opportunities. Shareholders will be unable to evaluate the manner in which the Company invests future funds raised or the economic merit of particular properties or projects prior to their acquisition.

***The Company intends to borrow to fund its future growth***

Although to date the Company's activities have primarily been financed with equity, the Company intends to borrow in the future to fund its development projects, generally through the use of bank credit facilities, and intends to utilise leverage in order to enhance returns to Shareholders. The extent of the Company's borrowings and the terms thereof will depend on the Company's ability to obtain credit facilities. Any delay in obtaining or failure to obtain suitable or adequate financing from time to time may impair the Company's ability to invest in suitable developments, which may impact negatively on the Company's investment performance and the return on the Ordinary Shares.

Due to the nature of the Russian market, the debt financing that may be available to the Company may also carry an interest rate that is higher than what might be expected in Western markets. There can be no assurance that any such debt financing required by the Group will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing on acceptable terms, it may be required to reduce the scope of its current developments or anticipated future developments.

In respect of residential developments, owing to the current high demand in Moscow, developers are typically able to finance construction costs from prepayments and advances. Where such residential developments are sold off-plan, construction funding costs are significantly reduced. Although such levels of prepayments vary, they may amount to 30 to 50 percent of the final sale price, resulting in the total price being payable in instalments. There can be no assurance that the Group will be able to secure such advance payments, or be able to use them to fund its working capital requirements, which may increase the Group's construction funding costs.

***The requirement to obtain a bank guarantee in respect of developments may restrict the Group's ability to obtain finance***

In the event that the Group is to enter into an investment contract with the Moscow Government in respect of a new development, recently enacted rules require that, prior to such investment contract being entered into, the relevant Group Company obtains a bank guarantee in favour of the Moscow Government. As such rules are relatively new, the precise nature of the requirement to procure a bank guarantee for any relevant project remains unclear. The amount of the bank guarantee may vary according to the type of development. For certain types of development, such as multifunctional complexes (which term is not defined) the amount of the bank guarantee is determined on a case by case basis. Other types of development will require a bank guarantee for an amount of up to 30 percent of the expected investment required for the relevant development. There is a risk that the relevant Group Company may not be able to obtain such bank guarantee, either at all, or on terms acceptable to the Group. Such inability may result in the Group being unable to proceed with a particular development. Further, there is a risk that the requirement to obtain such bank guarantee (in relation to one or a number of the Group's developments) may impact upon the Group's ability to obtain finance from third parties, either at all, or upon terms acceptable to the Group.

***The Company is subject to interest rate risk***

To the extent that the Company incurs floating rate indebtedness, changes in interest rates may increase its cost of borrowing, impacting on its profitability and having an adverse effect on the Company's ability to pay dividends to Shareholders. While the Company may enter into hedging transactions for the purposes of efficient portfolio management to protect its portfolio from interest rate fluctuations, the Company may bear a level of interest rate risk that could otherwise be hedged when the Directors believe, based on all relevant facts, that bearing such risks is advisable. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the Company's control. Interest rate increases could result in the Company's interest expense exceeding the income from its property portfolio, which may result in

operating losses for the Company. In the extreme, a high level of gearing may lead to a complete loss of the value of Shareholders' investment in the Company.

***Borrowings could adversely affect the Company's net asset value***

The Company's borrowings may be secured against some or all of the Company's assets. Whilst the use of borrowings should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling.

***The structure and specific provisions of any financing arrangements could give rise to additional risk***

The use of borrowings also presents the risk that the Company may be unable to service interest payments and principal repayments or comply with other requirements of its loans, rendering borrowings immediately repayable in whole or in part, together with any attendant cost, and the Company might be forced to sell some of its assets to meet such obligations, with the risk that borrowings will not be able to be refinanced or that the terms of such refinancing may be less favourable than the existing terms of borrowing. For example, a decline in the property market or tenant default may result in a breach of any loan to value and/or the debt service cover ratios specified in the Company's banking arrangements, thereby causing an event of default with the result that the lenders could enforce their security and take possession of the underlying properties. Any cross-default provisions could magnify the effect of an individual default and if such a provision were exercised, this could result in a substantial loss for the Company. Adverse changes to the market values of the property portfolios of the Company could cause the amount of refinancing proceeds to be insufficient to fully repay its existing debt upon maturity and the Company may be unable to fund payment of such shortfall.

The Company may be required to re-finance its borrowings from time to time. A number of factors (including changes in interest rates, conditions in the banking market and general economic conditions which are beyond the Company's control) may make it difficult for the Company to obtain such new finance on attractive terms or even at all. If the Company's borrowings become more expensive, relative to the income it receives from its investments, then the Company's profits will be adversely affected. Adverse changes to the market values of the property portfolios of the Company could also cause the amount of refinancing proceeds to be insufficient to repay fully its existing debt upon maturity and the Company may be unable to fund payment of such shortfall. If the Company is not able to obtain new finance at all then it may suffer a substantial loss as a result of having to dispose of the investments which cannot be re-financed.

***The Company may require further capital funding in the future that may dilute Shareholders' equity and negatively impact the Company's operating activities***

The Company's capital requirements depend on a number of factors. Any additional equity financing may be dilutive to Shareholders. Further, any debt financing, if available, may involve additional restrictions on financing and operating activities and distributions to Shareholders. In addition, there can be no assurance that the Company will be able to raise additional funds when needed or that such funds will be available on terms favourable to the Company. If the Company is unable to obtain additional financing as needed, the Company may be required to alter its strategic plans and reduce the scope of any expansion.

***The preparation of the Group's consolidated financial statements requires it to make many estimates and judgements, any change in the assumptions that support such estimates and judgements may cause a material and adverse change in the Group's financial condition or results of operations***

The preparation of the Group's consolidated financial statements requires the Group to make many estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent liabilities. On an ongoing basis, the Group evaluates its estimates and assumptions, including those related to revenue recognition, investment valuations, intangible assets, bad debts and contingencies. The Group bases its estimates on historical experience, where possible, and on various other assumptions that it believes to be reasonable under the circumstances, which form the basis of its judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and judgements for a relatively new company, like the Company, are more difficult to make than those made for a more mature company.

***The Group's portfolio companies may be subject to certain tax risks***

The Group has established certain of its portfolio companies outside Russia or acquired interests therein, in part, for reasons of tax efficiency. Any future changes in the tax laws or double-tax treaties of the countries in which they are organised or have a permanent establishment may significantly affect the tax efficiency of the Company's foreign operations and could result in significant additional tax liabilities for the Group.

***Tax and legal risks associated with the pre-Admission acquisition of properties from related parties and Group-related transactions***

Transfer-pricing legislation became effective in Russia on 1 January 1999. This legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20 percent. Controlled transactions may include transactions with related parties, barter transactions, external trade transactions and transactions with unrelated parties with significant price fluctuations (if the price in respect of the relevant transaction differs from the prices on similar transactions conducted within a short period of time by more than 20 percent). To date, there has been no formal guidance (although some court practice is available) as to how these rules will be applied.

In preparation for Admission, the previous holders (entities under common control with the Company) of certain properties and companies that have been, or will be, transferred into the Group undertook to reorganise the holdings of such properties and companies by transferring their ownership to newly established entities that were, or eventually will be, acquired by the Group (as described in Part III of this document under the heading "Relationship with Boris Kuzinez" and as further described in paragraph 8 of Part VII of this document). There is a risk that the Russian tax authorities may conclude that such transactions were conducted at other than arm's length prices, and thus seek to impose additional taxes on the previous owners of the properties. In addition, other companies and entities under common control with the Company but not related to the Group have used various structures that the Russian tax authorities may conclude to have infringed the transfer-pricing or other tax regulations now in effect in Russia. In the event that these structures were challenged by the relevant authorities, there can be no assurance that the Russian authorities would not seek to recover further tax payments. To the extent those further tax payments were not paid by those companies, the Russian authorities might, among other remedies, seek confiscation of other assets owned by those companies and their shareholders, including the Ordinary Shares held by D.E.S.

Since 2003, the Russian Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has increasingly focused on reviewing certain Russian companies' use of tax optimisation schemes and has sought to recover further tax payments in respect of such schemes.

Thus, while the primary Russian transfer pricing tax risk lies with the previous owners of the relevant property, if the Russian tax authorities are unable to collect any such assessed taxes from such previous owners, and/or if they determine that the primary motivation for such transactions was the avoidance of, or reduction in the payment of Russian taxes on the transfer of the properties, they may seek to unwind, nullify or otherwise challenge the transactions, which could have a material adverse effect on the Group's business, financial condition or results of operations or prospects. Furthermore, there can be no assurance that the Russian tax or other authorities might not consider bringing criminal proceedings against the companies under common control with the Company if they were to conclude that those companies had engaged in unduly aggressive tax structuring, including the shareholders or directors of such companies, including the Company's Chief Executive.

***The Group may be subject to foreign exchange risk***

The Company presents its financial results in US dollars, its Ordinary Shares will be quoted in US dollars and it calculates its consolidated net asset value in Roubles. The Company's functional currency for accounting purposes is the Rouble, and a large majority of the Group's expenses and expected revenues are, or will be, denominated and settled in Roubles. It is expected that for commercial purposes a significant proportion of such income and expenditure may be negotiated using US dollars and paid in Roubles at the prevailing spot rate. The Directors may, from time to time, undertake hedging activities, as required, in order to mitigate unfavourable exchange rate fluctuations.



It is possible that in the future it may become market practice to conduct operations in a currency other than Roubles, such as US dollars or Euros. Although there is an existing market within Russia for the conversion of Roubles into US dollars, including the inter-bank currency exchange and over-the-counter and currency futures markets, the futures markets are not well developed, and the further development of both the spot and futures markets is uncertain. At present, the Rouble is not generally convertible outside Russia. Accordingly, the value of an investment in the Ordinary Shares may be affected by fluctuations in the Rouble against other relevant currencies, and by exchange control regulations.

***VAT may have a significant effect on cash-flow***

In preparing its Report, the Industry Consultant has assumed a VAT rate at a rate of 18 percent. In theory provided that the conditions for the offset of VAT as set out in the Russian Tax Code are fulfilled, VAT in Russia is recoverable from the relevant governmental authorities, however the practical reality may differ. The VAT paid on construction and other development costs is considered a VAT credit account in favour of the developer provided that the conditions for the input VAT offset are fulfilled and the relevant procedure is followed. VAT on future rents can be retained and offset against the developer's VAT account until the credit is eliminated. This may have a significant adverse effect on a developer's cashflow, as there may be a considerable period of time before such credit is eliminated. To the extent the rent of premises will be exempt from VAT (which is the case if the premises are rented to foreign companies accredited in Russia), the lessor would be required to restore a portion of the input VAT which has been claimed for offset.

***The Takeover Code will not apply to the Company***

The Takeover Code will not apply to the Company. As a result, a takeover offer for the Company will not be regulated by the UK takeover authorities. Furthermore, as the Island of Guernsey is neither a separate member state nor an associate member of the European Union, Directive 2004/25/EC on takeover bids (the "Takeover Directive") will not apply to the Company. The Articles contain certain takeover protections, although these will not provide the full protections afforded by the Takeover Code or the Takeover Directive. The relevant provisions of the Articles are summarised in paragraphs 4.18 and 4.19 of Part VII of this document.

**General Risks Related to the Group's Management Structure**

***The Group relies on certain key management personnel, the loss of whom could have an adverse impact on its business***

The Group's future growth and success depends, in part, upon the leadership and performance of its management team, some of whom have significant experience with the Group. If any key person resigns, there is a risk that no suitable replacement with the requisite skills, contacts and experience would be found to replace such person. In particular, the Group is highly dependent on the continued services of its founder and current Chief Executive, Boris Kuzinez, together with other executive officers and key employees, including technical personnel, who possess extensive real estate knowledge. The diminution or loss of the services of Boris Kuzinez for any reason, as well as any negative market or industry perception arising from that diminution or loss, could have a material adverse effect on the Group's business. The business environment within Russia is characterised by the use of contacts and business relationships. With respect to the Group, this is particularly significant regarding Boris Kuzinez, whose contacts and business relationships are integral to the Group. If Boris Kuzinez was unable to perform his duties, to the extent that such contacts are personal to him, there would be an adverse effect on the Group's ability to continue its activities within currently envisaged timeframes, or at all.

In addition, the loss (whether temporary or permanent) of other executives could have a material and adverse effect on the Company's ability to run its business and accordingly, on its prospects, financial condition and operating results. Russian legislation provides all employees with a two week notice period. A risk therefore exists that key potential could leave the Group after the minimum notice period.

***The Company's majority shareholder will continue to exercise significant influence over the Group***

Boris Kuzinez, who is, indirectly, the Company's majority shareholder, will own approximately 51.6 percent of the Ordinary Shares immediately after the Offer (which will reduce to approximately 50.1 percent if the maximum number of Over-allotment Shares is issued pursuant to the Over-allotment Option). The provisions of the Articles prevent a Director from voting on transactions in respect of which he is

materially interested. Although the Relationship Agreement provides that the Company's independence will be maintained, nonetheless Boris Kuzinez will be in a position to have significant influence over the Company's operations and business strategy. The trading price of the Company's Ordinary Shares could be materially adversely affected if potential new investors are disinclined to invest in the Company because they perceive disadvantages to a large shareholding.

***Members of the Group have entered and may continue to enter into material agreements and other material arrangements with the Company's majority shareholder and parties connected to it***

Members of the Group have entered into several agreements and other arrangements important to the Group's business with parties under the common control of the Company's principal shareholder, Boris Kuzinez, as identified in Part III under the heading "Relationship with Boris Kuzinez" and as described in paragraph 8 of Part VII of this document. Although the Directors believe that these agreements and other arrangements are fair to the Group in all material respects, it is possible that, where applicable, the Group might have obtained more favourable or less favourable terms from independent third parties. Following the Offer, members of the Group may continue to have contractual and other business relationships with parties affiliated with Boris Kuzinez. For example, as described in Part III of this document under the heading "Relationship with Boris Kuzinez", it is intended that both LLC Project Bureau ("Project Bureau") and Armix may provide services following Admission to non-Group companies that are controlled by Boris Kuzinez. The Board expects that the terms of such business relationships will be no less favourable to the Group than the terms the Group could obtain in comparable dealings with unrelated third parties. However, the Board may not be required to obtain independent opinions as to the fairness of these transactions, and the Board cannot assure investors that such arrangements necessarily reflect terms that would be agreed from arm's length negotiations. In addition, there can be no assurance that in the future the Group will continue to maintain its relationships with parties affiliated with Boris Kuzinez, or that, if such relationships are no longer maintained, the Group will be able to enter into alternative arrangements with third parties on terms at least as favourable as those obtained from parties affiliated with Boris Kuzinez. In such event, the Group's business, prospects, financial condition and results of operations could materially and adversely affected.

**Risks Related to the Industry**

***Limited availability, quality and reliability of market data creates uncertainty as to market values and rental values***

The real estate market in Russia is characterised by a limited amount of publicly available data and research compared to certain other industrialised countries. A small number of private organisations have begun to publish statistical and other research data with respect to the Russian real estate market. Primarily due to the relatively short period of time for which such data has been collected and published, the scope of such data is significantly less broad and tends to be less consistent than the data relating to certain other industrialised countries. The relative lack of such data makes it more difficult to assess the market and rental values of real estate in Russia with those of other industrialised countries.

***Real estate investments may not be liquid***

In general, investments in real estate should be regarded as illiquid compared with other forms of investment, such as securities. Further, historically, the real estate market in Russia has been relatively illiquid compared to real estate markets in certain other industrialised countries, principally due to the relatively small number of real estate companies and the limited information on prices actually paid in comparable real estate transactions. The illiquidity of the Russian real estate market could adversely affect the Group's ability to generate cash through timely sales of the Group's real estate properties or to vary its portfolio promptly in response to economic and other conditions which could create uncertainty as to the market value of the Group's properties and thereby increase the volatility of the price of the Ordinary Shares.

**Risks Related to the Russian Federation—Political and Economic Risks**

***Political instability could negatively affect the value of the Ordinary Shares***

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, with varying degrees of success, the Russian political system remains vulnerable to popular



dissatisfaction, as well as to unrest by some social and ethnic groups. Remaining political instability could have a material and adverse effect on the value of investments in Russia, including the value of the Ordinary Shares.

#### ***Upcoming elections***

In 2007 a new Mayor of Moscow may be appointed. In addition, in 2007 the Russian Federation is due to have elections to the lower house of the legislature, the State Duma. Future changes in the Moscow Government as well as major policy shifts in the Russian Federation could lead to political instability and impact on the Group, in particular through reducing Boris Kuzinez's network of contacts within the Moscow Government.

#### ***Conflicts among federal, regional and local authorities and other political conflicts could create an uncertain operating environment***

The delineation of authority among the Russian Federation's many localities, regions, internal republics and the federal government as well as among the branches of government is often unclear. The Russian political system is vulnerable to tensions and conflicts among federal, regional and local authorities over various matters including land ownership, tax revenues, authority for regulatory matters and regional autonomy. Similar tensions and conflicts may also exist among various regulatory authorities within the federal or within a particular regional or local government. The Group's properties and operations may be materially and adversely affected by such conflicts. Additionally, the Russian Federation has experienced tensions, occasionally resulting in armed violence, among various ethnically, religiously, culturally and politically diverse groups as well as terrorist activities throughout Russia, including Moscow. The spread of violence, or measures taken to counter violence, such as a declaration of a state of emergency, could hinder the Group's operations and the expansion of its business.

#### ***The cyclical nature of the Russian real estate market could affect the Group's business***

The Russian office and retail real estate market experienced a downturn in the late 1990s primarily as a result of the Russian financial crisis of 1998. Since 2001, however, the demand for office and retail real estate, and in particular office space, has increased. There can be no assurance that such stabilisation or recovery will continue in the future. In the event of a recession or economic downturn that affects the profitability of business and employment levels in Russia, the demand for properties, and particularly office space for office and retail enterprises in the service sector, retail space in upscale shopping districts and deluxe residential properties, will be directly and adversely affected. In such circumstances the value of the Group's properties may decrease and the number of tenant vacancies may increase. This could adversely affect the value and marketability of the Group's properties, cause the Group to lower its rental rates and/or force the Group to offer economic incentives to potential tenants and/or lower its anticipated sale prices. Consequently, a recession or an economic downturn could materially and adversely affect the Company's financial condition, results of operations and the value of the Group's properties. Inflation may lead to increased operating costs that are not fully recoverable through increased rents.

#### ***Economic instability in the Russian Federation could adversely affect the Group's operations and investment plans***

The Russian economy in the first decade after the dissolution of the Soviet Union was at various times characterised by:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;

- growth of a black and grey market economy;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. For example, on 17 August 1998, the Russian government defaulted on its Rouble-denominated securities, the Central Bank of Russia stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds on international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies, and resulted in the widespread loss of bank deposits.

The Russian economy continues to be characterised by structural weaknesses, and accordingly there can be no assurance that recent positive trends in the Russian economy—such as significant and sustained increases in gross domestic product, a relatively stable Rouble, and a reduced rate of inflation—will continue. Moreover, any strengthening of the Rouble in real terms relative to the US dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect the Russian Federation's economy and the Group's business and results of operations in the future.

In recent years, the Russian economy has experienced significant growth. This growth has been driven in part by higher prices for oil and gas and other natural resources. Any decline in oil and gas prices in particular could result in a significant downturn in the Russian economy, which in turn could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

***The Russian Federation's physical infrastructure is in poor condition, which could disrupt normal business activity***

The Russian Federation's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, electric power generation, transmission and distribution, district heating systems and water utilities, communication systems and building stock. Electricity and heating shortages in some of the Russian Federation's regions have seriously disrupted the local economies. Other parts of the country face similar problems, or may be expected to face them in the near future.

The federal government is pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs and may or may not generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of the Russian Federation's physical infrastructure harms the national economy, disrupts access to communications, adds costs to doing business in the Russian Federation and can interrupt business operations. This could have a material and adverse effect on the Group's business, prospects, financial condition and results of operations.

***Fluctuations in the global economy may adversely affect the Russian Federation's economy, limiting the Group's access to capital and adversely affecting the real estate market, and tenants' economic position***

The Russian Federation's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. These developments could severely limit the Group's access to capital and could adversely affect the real estate market, and the Group's tenants' economic position and thus the Group's business, prospects, financial condition and results of operations.

Recent international terrorist activity has had a significant effect on international finance. Any future acts of terrorism of sizeable magnitude could have an adverse effect on the international financial markets and the global economy.

## **Risks Related to the Russian Federation—Social Risks**

*Social instability could lead to increased support for renewed centralised authority and a rise in nationalism or violence which could restrict the Group's ability to conduct its business effectively*

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. The elimination of many subsidised services for pensioners in January 2005 led to large-scale nationwide protests, which caused the government to re-evaluate the scope and pace of its programme to reform economic policies. Civil unrest may have other significant political, social and economic consequences, such as increased violence and support for renewed centralisation of authority, renationalisation or expropriation of property, or restrictions on foreign involvement in the Russian economy. Any of these factors could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

*Crime and corruption could disrupt the Group's ability to conduct its business*

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of Russian society. In addition, bribery in Russian business is widespread. Government officials have engaged in selective investigations and prosecutions. Any allegations of involvement in such practices would pose a risk of prosecution and of possible criminal or administrative liability. Any of the foregoing could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

## **Risks Related to the Russian Federation—the Russian Legal System and Russian Legislation**

*Inconsistencies in legislation relating to land*

Within the Russian Federation, certain inconsistencies exist between federal laws and regional laws. Historically, a material example of such inconsistency related to the private ownership of land in Moscow. While the Land Code (federal legislation) allows for the private ownership of land (as described above), the Moscow City law "On Use of the Land and Development" (regional legislation) historically has not. While federal legislation is in theory superior to that of the City of Moscow, in practice, to date there have been few instances of private ownership of land within the City of Moscow. However, as described in the following paragraph, City of Moscow authorities have recently implemented regulations which address this position.

On 27 June 2006 the Moscow Government adopted Decision No. 431-PP "On Transfer of Land Plots Located on the Territory of the City of Moscow to Private Ownership" which entered into force on 27 July 2006. Decision No. 431-PP specifically prescribes procedures of transfer of land ownership rights to private persons. In this respect, City of Moscow regulations relating to land are now consistent with federal law. However, this law is new and as such, its interpretation and implementation is in practice unclear.

A further example of such inconsistency relates to the Butikovsky Development. It is unclear whether Inpromtex is required to comply with certain restrictions relating to location of the Butikovsky Land Plot within the "water protection zone" of the Moscow river. City of Moscow legislation regulating water protection zones is vague and can be interpreted in more than one way. Pursuant to City of Moscow legislation, the water protection zones for developed areas of the City of Moscow (such as Butikovsky Lane) are to be determined on a case by case basis following a specific procedure, which includes two basic stages: (i) preparation of the town planning documentation and (ii) development of design documentation. For non-developed areas, the water protection zone of the Moscow River extends to 400 metres from the river. According to the Butikovsky Interdepartmental Conclusion, the Butikovsky Development is located within 50 metres from the Moscow river, in a developed area. It is understood that in the City of Moscow there are currently no designated water protection zones of the Moscow River for developed areas. Based on City of Moscow legislation, it is arguable that in the absence of the designated water protection zones for developed areas, the general 400 metre standard should be applied. This opinion is supported by the District Environmental Prosecutor's Office of the City of Moscow. However, there may be an argument that in the absence of designated water protection zones for developed areas, there are no water protection zones for such areas in the City of Moscow. This view is supported by the Moscow State Interdepartmental Inspection. Based on the above, the risk of the Butikovsky Land Plot falling within a water protection zone cannot be excluded.

The possible location of the Butikovsky Land Plot within the water protection zone of the Moscow river would entail some limitations for its use. Under Russian law, development within water protection zones is generally possible with the preliminary approval of the relevant state authority. However, certain activities are prohibited in the water protection zones, such as the operation of a car wash or car parking. The design documentation for construction of the Butikovsky Development envisages construction of an administrative building with underground parking and a car wash. The Moscow and Oka Water Administration (which is an authorised body for approval of developments in water protection zones in the City of Moscow) approved the design documentation for construction of the Butikovsky Development. However, formally, the car parking and car wash facilities envisaged by the design documentation for construction of the Butikovsky Development is prohibited within the water protection zones. By a letter from the Moscow State Interdepartmental Inspection No. MGE-3/189 dated 9 February 2006, the District Environmental Prosecutor's Office of the City of Moscow believes that Moscow state authorities were not authorised to approve allocation of car parking and car washes on land plots located within 400 metres of the Moscow River. Therefore, there is a risk of invalidation of the resolution of the Moscow and Oka Water Administration and Moscow State Interdepartmental Inspection which approved the design documentation for construction of the Butikovsky Development. The absence of any construction approvals required by state authorities may result in such structure being deemed to be an unauthorised construction, potentially leading to its subsequent demolition pursuant to a court order. This risk is, however, mitigated by the ambiguity of the City of Moscow legislation defining the size of the water protection zones for developed areas in the City of Moscow (such as Butikovsky Lane).

#### ***Proposed increased administrative fines***

The City of Moscow authorities have proposed to increase the administrative fine that applies if construction of a new development is delayed for more than three years from the completion date specified in the construction permitting documentation up to 5,000,000 Roubles (approximately US\$184,600). The current administrative fine for delays ranges from 50,000 Roubles to 100,000 Roubles. Such fines could potentially impact upon the Group if proposed developments do not meet the completion deadlines established in the relevant resolution of the Moscow Government.

#### ***Weaknesses related to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity***

The Russian Federation is still developing the legal framework required to support a market economy. Frequently, it will not be possible to determine in advance whether a proposed course of action is legal, or would be considered legal by a court or other governmental authority of competent jurisdiction, because:

- the lack of consensus about the aims, scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, place the enforceability and constitutional validity of laws in doubt;
- legal norms at times contradict one another;
- a number of fundamental Russian laws have only recently become effective;
- there remain significant gaps in the legal framework due to the delay or absence of regulations implementing certain legislation;
- judges and courts are relatively inexperienced in interpreting legislation in accordance with new principles established under reformed statutes;
- there is little authoritative guidance on legislative interpretation, whether judicial, administrative, academic or otherwise; and
- legislative history is frequently unavailable or inaccessible, and databases of judicial decisions and administrative orders are frequently out of date and in some areas of law may not exist.

Such ambiguities, inconsistencies and anomalies result in an unpredictable legal environment that makes it more difficult to conduct the Group's business, complete transactions, enforce the Group's contractual rights and defend itself against claims by third parties, all of which may adversely affect the Group's business, prospects, financial condition and results of operations. Moreover, potential investors should not rely on the Group's interpretations of Russian law set forth herein. If a Russian court or a governmental authority takes a position unfavourable to the Group, it could materially and adversely affect the Group.

***Lack of independence and inexperience of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group or its investors from obtaining effective redress in court proceedings***

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation is subject to doubt. The court system is understaffed and underfunded. Judges and courts remain inexperienced in the area of international financial transactions. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow and enforcement of court orders can, in practice, be very difficult. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The Group may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or duly followed by law enforcement agencies. These uncertainties also extend to property rights, including legislation enacted to protect private property against nationalisation and expropriation, and may have a material and adverse effect on the Group.

***Negative effect of legal changes***

Any changes to the laws and regulations relating to Russian property may have an adverse effect on the capital value and/or the rental income of the Group's property portfolio.

***Unlawful, selective or arbitrary government action may have a material and adverse effect on the Group's business***

Government authorities have a high degree of discretion in the Russian Federation and at times some subordinate officials may exercise their discretion arbitrarily, without consultation or prior notice, without public scrutiny and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. The government has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Examples of arbitrary or capricious government actions which negatively impact the commercial sector include withdrawals of licences, imposition of moratoria on convertibility or repatriation of hard currency, sudden tax audits (including tax audits involving raids by heavily armed police), criminal prosecutions, civil actions and interference into the affairs of private persons and organisations. According to Russian and international press reports, federal and local government entities have in some cases used legal loopholes and procedural ambiguities to invalidate share issuances and registrations or to void transactions, merely for political purposes. Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups. In this environment, the Group's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over the Group. Government actions of this kind could, if directed at the Company or Russian companies in which the Company has an interest, have a material and adverse effect on the Group's business and on the value of the Ordinary Shares.

In addition, in 2003 and 2004 the Ministry for Taxes and Levies aggressively cracked down on certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Unlawful or arbitrary government action, if directed at the Group, could have a material adverse effect on the Group's business and on the value of the Ordinary Shares.

***The unpredictable federal and local tax systems in the Russian Federation give rise to significant uncertainties and risks that complicate the Group's tax planning and business decisions***

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added and other sales-based taxes;
- excise taxes;
- property taxes; and
- unified social tax and pension contributions.



Russian tax legislation is subject to frequent change and some of the laws related to the aforementioned taxes are comparatively new. Therefore, it is often difficult to predict in advance how the Russian tax authorities will apply tax legislation in practice. Extensive Russian court practice in respect of these questions may not exist. In practice, Russian tax authorities can be expected to interpret tax laws in a manner that rarely favours taxpayers. However, differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are empowered by law to impose severe fines, penalties and interest charges. Generally, taxpayers are subject to tax audits covering a period of three calendar years immediately preceding the year in which the audit is conducted. As the completion of an audit does not preclude the tax authorities from subsequently bringing claims relating to the audited period, the statute of limitations is not entirely effective. Furthermore, in some instances, new tax regulations have been given retroactive effect in violation of the Russian constitution.

Financial statements of Russian companies are not consolidated for tax purposes. Accordingly, for example, each of the various Russian entities through which the Company holds its properties and conducts its business would pay its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Group. In addition, payments of inter-company dividends between two Russian entities are subject to a withholding tax of 9 percent at the time they are paid out of profits, though this tax does not apply to dividends once they have already been taxed.

The foregoing conditions create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on the Group's operations and the operations of Russian companies in which the Group has an interest. These risks and uncertainties complicate tax planning and related business decisions for the Group, potentially exposing it to significant fines and penalties and enforcement measures despite the Group's best efforts at compliance, which could adversely affect the Group's business, prospects, financial condition and results of operations.

***Risk of Russian taxation of non-Russian entities in the Group***

The Company and its non-Russian subsidiaries (that do not have registered branches in Russia) are generally considered to be non-residents of Russia for tax purposes. There can be no assurance that Russian tax authorities will not deem that the Company and/or any such non-Russian subsidiaries have a permanent establishment in Russia as a result of activities of the Company or its subsidiaries or the exercise of management and control from within Russia. There are instances where non-Russian companies that perform holding or finance functions and are managed and controlled from Russia have been challenged by Russian tax authorities as having a permanent establishment in Russia. Such a challenge could result in one or more of the non-Russian entities in the Group being subject to Russian profits tax computed under Russian tax principles and Russian income tax withholding being assessed on interest and certain other payments made from such companies. In such event, material adverse effect on the Group's business, prospects, financial condition or results of operations.

***Industrial accidents or environmental hazards in the Russian Federation could negatively affect the Group***

There are a number of nuclear and other dangerous installations on Russian territory, where safety systems to contain ecological risks may not be sufficiently effective. The occurrence of accidents in these installations, as well as the general unfavourable ecological situation in the Russian Federation, may have a material and adverse effect on the Group's activities.

***Recent liberalisation of legislation on currency regulation and currency control may influence the Group's ability to conduct routine business transaction***

The Federal Law on Currency Regulation and Currency Control, which became effective in 2004, introduced new principles and procedures for currency regulation and control. It provides for two types of restrictions applicable to certain operations, including operations with securities, specifically: (1) the use of special accounts for settlements and (2) the creation of reserves, which are non-interest bearing Rouble deposits placed with Russian authorised banks for a fixed period of time. Under this law the Central Bank of Russia has the authority to impose requirements for mandatory reserves and mandatory use of special accounts for operations with securities. However, from 1 July 2006, the Central Bank of Russia abolished the then existing requirements which mainly applied to transactions in the context of securities regarding

the use of special accounts and creation of reserves and the Russian Government abolished the requirements regarding the creation of reserves applicable in the context of acquisition by residents from non-residents of shares in the charter capital of companies. Furthermore the recently adopted amendments to the Federal Law on Currency Regulation and Currency Control remove the right of the Central Bank of Russia and the Russian Government to introduce the majority of stipulated limitations (i.e. special accounts and/or reserves) as of 1 July 2006. Thus, pursuant to these amendments Russian companies and individuals intending to acquire Ordinary Shares theoretically may only be required to use special accounts in the context of securities.

***It is often difficult to ascertain with certainty the validity and enforceability of title to land and other real property in Russia and the extent to which it is encumbered***

During the Soviet period, nearly all land in Russia was owned by the state. Land reform began shortly after the collapse of the Soviet Union in 1991, but until recently land legislation in Russia was unsystematic, contradictory and not always in line with the constitution. Land legislation at the federal level changed continuously; more than one hundred federal laws, decrees of the president of the Russian Federation and resolutions of the government of the Russian Federation were issued. Moreover, almost all regions of the Russian Federation passed their own legislative acts. In many instances, local, regional and federal governmental authorities enacted regulations on the transfers of rights to own or use land without sufficient constitutional and other legal basis. Land plots were often sold or leased pursuant to such ad hoc regulations, and their permitted use changed based on directives or approvals of public officials whose authority might be questionable. Furthermore, there is no certainty regarding which governmental body, municipal, regional or federal, had the power to sell, lease or otherwise dispose of land now purportedly owned by private parties. In some instances, for example, regional authorities purported to dispose of state-owned land that was later found to be within the jurisdiction of the federal government. Generally, therefore, it is very difficult to determine whether title to a certain piece of land was effectively transferred from the state to a private party during the process of privatisation. Although the Group has not participated in land privatisation, some of the land plots used by the Group may have been originally transferred from state ownership.

***The process of acquiring legal title to its assets is time-consuming and cumbersome***

In accordance with the Federal Law on State Land Register dated 2 January 2000, the State Land Register (the “Land Register”), administered by the Federal Agency, was established. The Land Register discloses certain key information in respect of land such as its location, designated use, ownership title and cadastre value.

Also, there is also a uniform register of rights, the Register of Immovables, which contains key information in respect of land and buildings, similar to the Land Register. However, the quality and reliability of the official information in both registers is generally not equivalent to that of more developed Western countries. Further, the state gives no clear guarantee relating to the accuracy and completeness of the information contained in either register. Thus, although the Group may be forced to rely upon the information contained in either register, it may not have effective redress against the state if the information upon which it relied, in deciding whether or not to make an investment, was inaccurate, misleading or incomplete. The information in either register may be subject to a challenge in the courts by any interested party. Broadly speaking, the relevant member of the Group will only acquire title to assets which is as good as the title of the seller of such assets to such member of the Group. It can be difficult, or impossible, in certain cases, to establish beyond doubt that such title is incapable of challenge. Any successful challenge to the validity of the seller’s title to an asset may in turn have adverse consequences for the relevant member of the Group’s title to such asset.

***Servitude and easements new to Russian law***

In Russia, the concept of an easement or servitude such as right of way or access is undeveloped. Accordingly the rights relating to a property over another’s land (e.g. for drainage, access, rights of light, cabling and structural support) are generally ill-defined concepts. The Group may be uncertain as to its rights over adjoining land, and similarly, neighbours to the Group’s property may have ill-defined rights over the Group’s property.

***Russian legislation may not adequately protect against expropriation and re-nationalisation***

Russia has, since the early 1990s, undertaken a substantial programme of privatisation. However an anti-privatisation lobby still exists within the Russian parliament. Re-nationalisation of assets cannot be ruled out. Any such activity could materially and adversely affect the value of the Group's assets. Land may be subject to compulsory purchase by the state for its own needs or as a sanction for the inappropriate use of that land. The Law on Investment Activity in the Russian Federation provides that in the event that property (including, by implication, real estate) is nationalised or requisitioned by the state, the owner is entitled to full reimbursement for all incurred losses, including loss of profit. It is not clear how such losses will be calculated nor whether there is any way to seek to challenge the confiscation of real estate.

During Russia's transformation from a centralised economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to political or legal changes, these protections could not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of companies in which the Group has an interest, or of their assets or portions thereof, potentially with little or no compensation, would have a material and adverse effect on the Group.

***It is difficult for real estate developments to fully comply with all governmental and administrative regulations in Russia***

In order to use and develop land in Russia, approvals and consents of various federal, regional and local governmental authorities, such as environmental, architectural, land, sanitary, geological and other authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory, subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to the landowners and real estate developers. Even though the Group believes it is able to deal with the complexities of Russian land legislation, it is even with utmost diligence often difficult to assure full compliance of real estate properties and developments with all governmental and administrative regulations in Russia. If any of the Group's existing or prospective real estate properties is found not to be in compliance with all applicable regulations, it may have a material and adverse effect on such property and on the Group's overall business, prospects, financial condition and results of operations.

***Russian courts may force a Russian legal entity into liquidation on the basis of formal non-compliance with certain requirements of Russian law***

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation of such entity or during its operation. Although, like many other Russian companies, Russian companies in which the Group has an interest (or their subsidiaries) may have failed from time to time to comply fully with all applicable legal requirements, so far as the Group is aware, none of any such possible violations are significant, has caused any damage to any third party or has had other negative consequences. Accordingly, the Company believes that no Russian company in which it has a direct or indirect ownership interest is likely to be liquidated on such grounds. However, weaknesses in the Russian legal system create an uncertain legal environment, which make the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict and which may have a material and adverse effect on the Group's business, prospects, financial condition and results of operations.

***Past transactions of the Group may be challenged under mandatory provisions of Russian law***

The Company and its subsidiaries have taken a variety of actions involving the establishment of new business organisations, share issuances, share acquisitions and disposals, valuations of property, so-called "major transactions" and "interested party transactions," transactions with state authorities, state-owned entities and other transactions and actions that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions, shareholders of the relevant companies or other interested parties, could result in the invalidation of such transactions or actions or the imposition of other liabilities. The assets owned by the Group were acquired from other entities connected to Boris Kuzinez at less than market value. It is possible that interested parties, such as creditors or tax authorities, could seek to set aside one or more of these related party

transactions. The applicable provisions of Russian law are subject to different interpretations and there can be no assurance that the relevant companies would be able to successfully defend any challenge brought against such transactions or actions. Invalidation of any such transactions or actions or imposition of any such liability may, individually or in the aggregate, have a material and adverse effect on the Group's properties, business, prospects, financial condition and results of operations.

***Accounting practices in Russia vary as compared with Western countries***

Accounting, auditing and financial reporting standards in Russia are not always equivalent to those applicable in more developed market economies. The quality and reliability of information available to the Group is likely to be less than that which may be available to investors when investing in Western countries. The obligation on Russian companies to publish financial information is also relatively limited, thus making satisfactory due diligence prior to any acquisition harder to achieve.

***Foreign investment restrictions are unpredictable***

The laws and regulations affecting foreign investment in Russian enterprises continue to evolve in an unpredictable manner. Laws and regulations, particularly involving taxation, foreign investment and trade, title to securities, and transfer of title that are applicable to the Group's activities can change quickly and unpredictably (sometimes with retroactive effect) in a manner far more volatile than in developed market economies. Although basic commercial laws are in place, they are often unclear or contradictory and subject to varying interpretations and may at any time be amended, modified, repealed or replaced in a manner materially adverse to the interests of the Group.

**AIM Risks**

***Investment in AIM quoted securities may be subject to more risk***

The Ordinary Shares will be traded on AIM rather than the main market of the London Stock Exchange. An investment in shares traded on AIM carries a higher risk than an investment in shares traded on the Official List. AIM has only been in existence since 1995 and its future success and liquidity in the market for the Ordinary Shares cannot be guaranteed. Potential investors should be aware that the value of the Ordinary Shares may be volatile and may fall as well as rise and investors may therefore not recover their original investment. Investment in shares traded on AIM is perceived to involve a higher degree of risk and can be less liquid than investment in companies whose shares are listed on the Official List of the London Stock Exchange. The market price of the Ordinary Shares may not reflect the underlying value of the net assets of the Group.

In addition, AIM is a less regulated market than the Official List. For example, there are fewer circumstances in which the Company would be required to seek shareholder approval for transactions undertaken by the Company. Shareholders may suffer actual or perceived prejudice to the extent the Company takes advantage of the increased flexibility it is allowed through an AIM listing.

***The price of the Ordinary Shares may be volatile***

The share price of quoted companies can be highly volatile. The price at which the Ordinary Shares are quoted and the price at which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect quoted companies generally. These factors could include the performance of the Group, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

***There is currently no market for the Ordinary Shares and a market for the Ordinary Shares may not develop, which could adversely affect the liquidity and price of the Ordinary Shares***

There is currently no market for the Ordinary Shares. Therefore, prospective investors should be aware that they cannot benefit from information about the prior market history of the Ordinary Shares as to their decisions to invest. Furthermore, an active trading market for the Ordinary Shares may never develop or, if it does develop, may not be maintained. Shareholders may be unable to sell their Ordinary Shares unless a market can be established or maintained.

**Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of the potential risk factors, their personal circumstances and the financial resources available to them.**

## PART III

### INFORMATION ON THE GROUP

#### Overview

RGI is the holding company of the Group, whose core business is the development and management of high-end office, retail and residential properties in central Moscow and the surrounding areas. The Group's strategy is to complete the construction of its five current development projects and one pipeline project and, in general, to retain and manage the completed office and retail properties within such developments, although all or part of such developments may be sold in the right market conditions, if doing so, in the view of the Directors, will optimise shareholder value. The Group intends to dispose of its completed residential properties. The Group also intends to identify and invest in future development projects in prime locations in central Moscow and the surrounding areas. The Group's management team is led by Boris Kuzinez, who has a proven track record in completing high-end development projects in central Moscow and the surrounding areas. Boris Kuzinez is also, indirectly, the Group's majority shareholder.

The Group is currently in the process of developing five properties. Development of these properties is at a very early stage, and construction has commenced in respect of only one property. These projects comprise one primarily retail development at 15/1 Tsvetnoy Boulevard (estimated gross internal area of 38,653 square metres), two primarily office developments at 15 Butikovsky Lane (estimated gross internal area of 8,929 square metres) and 70/1 Zemlianoj Val Street (estimated gross internal area of 10,491 square metres), and two primarily residential developments at 3/1 Khilkov Lane (estimated gross internal area of 32,000 square metres) and 37/7 Ostozhenka Street (estimated gross internal area of 1,379 square metres). In the Russian Federation, property may be developed in different ways, which may not necessarily result in a developer acquiring a 100 percent ownership interest in a completed development.

In addition, the Group has one pipeline office, retail and residential development at 5-13 Nizhniy Tagansky Lane (estimated gross internal area of 67,995 square metres)—the Taganka Development. The Group does not currently have any development rights in relation to the Taganka Development or any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that the Moscow Government will grant such resolution on terms acceptable to the Group, or at all.

The Group's rights in respect of its current development projects have arisen, or are expected to arise, under a variety of different contracts or approvals depending on the historical and expected development of each property. As at the date of this document, the Group has rights under existing land leases in respect of the Tsvetnoy Development and the Ostozhenka Development. The Group also has rights under a co-investment contract in respect of the Zemlianoj Development, and expects to obtain rights pursuant to investment contracts in respect of the Taganka Development, the Khilkov Development and certain land relating to the Tsvetnoy Development. The Group has contractual rights to acquire ownership of the Butikovsky Development following completion of construction.

The Group is also currently considering a number of additional development projects with third parties.



The Group's current projects are at an early stage of development. Construction has commenced in respect of only one project, the Butikovsky Development. Investors are advised to consider the current status of each of the Group's current developments as set out in more detail under the heading "The Group's Current Property Developments" in this Part III. In particular, the Group currently does not have any land lease rights in relation to the Taganka Development, or any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that the Moscow Government will grant such resolution on terms acceptable to the Group, or at all.

Development	Description of Current Developments	Estimated Gross Internal Area upon Completion (sq. m)	Industry Consultant's Valuation for 100% of Completed Development (US\$, excluding VAT)	Industry Consultant's Valuation for 100% of Development in Existing State (US\$, excluding VAT) <sup>(1)</sup>	RGI Target Ownership upon Completion <sup>(2)</sup>	Portfolio Value for Completed Development based on Target RGI Ownership	Current Portfolio Value based on Target RGI Ownership <sup>(3)</sup>	Estimated Completion Date
<i>Properties in the course of construction</i>								
Butikovsky Development	Office building to be constructed in Butikovsky Lane, Moscow	8,929	38,264,000	22,954,000	100%	38,264,000	<b>22,954,000</b>	Q2 2007
<i>Properties held for development</i>								
Ostozhenka Development	Residential building to be constructed in Ostozhenka Street, Moscow	1,379	27,580,000	13,246,000	100%	27,580,000	<b>13,246,000</b>	Q4 2008
Tsvetnoy Development	Primarily retail complex to be constructed in Tsvetnoy Boulevard, Moscow	38,653	185,575,000	64,580,000	100%	185,575,000	<b>64,580,000</b>	Q3 2008
Zemlianoy Development	Primarily office complex to be constructed in Zemlianoy Val Street, Moscow	10,491	67,190,000	20,762,000	100%	67,190,000	<b>20,762,000</b>	Q4 2008
Khilkov Development	Primarily residential complex to be constructed in Khilkov Lane, Moscow	32,000	325,000,000	156,818,000	50%	162,500,000	<b>78,409,000</b>	Q2 2009
<b>Total properties in the course of construction and held for development</b>		<u>91,452</u>				<u>481,109,000</u>	<u><b>199,951,000</b></u>	
<i>Pipeline properties</i>								
Taganka Development	Office, retail and residential complex to be constructed in Nizhniy Tagansky Lane, Moscow	67,995	325,695,000	91,997,000	100%	<u>325,695,000</u>	<u><b>91,997,000<sup>(4)</sup></b></u>	Q4 2009
<b>Total</b>		<u>159,447</u>				<u>806,804,000</u>	<u><b>291,948,000<sup>(5)</sup></b></u>	

**Notes:**

- (1) The Industry Consultant's valuation figures have taken into account certain costs payable to the Moscow Government, including both estimated general construction costs and estimated costs in order to acquire, where relevant, the Moscow Government's share, or future share, in the Group's current developments. For the purposes of the financial information set out in Part VI of this document, the Directors have considered it appropriate to apply a discount to the market values proposed by the Industry Consultant in order to reflect the absence of full permits and permissions relating to the developments as at the date of acquisition. The discounts applied between 0% and 20% represent the Directors' estimate of the risk premium which would be commanded by an acquirer.
- (2) Obtaining 100 percent ownership of a real estate asset can be procedurally complex in Russia. Details of the Company's current position regarding ownership and other contractual rights, the current status of each of the above developments, and the steps necessary to achieve the target ownership of each of the above developments are set out under the heading, "The Group's Current Property Developments" in this Part III.
- (3) These figures are based on the Industry Consultant's valuation of the relevant development in its existing state and represent the value of the Company's target ownership of each development, upon completion. Further material payments are required to be made by the Group to third parties to achieve this target ownership in respect of the Butikovsky Development (to Inpromtex) and the Khilkov Development (to Litonor Financial). Further details of certain acquisition costs previously paid, and yet to be paid, are set out in respect of each of the developments under the heading "The Group's Current Property Developments" in this Part III.
- (4) The Industry Consultant's valuation figure in respect of the Taganka Development excludes any value attributable to the theatre that is expected to be refurbished by the Group as part of the Taganka Development, and is expected to be owned by the Moscow Government.
- (5) The Industry Consultant's valuation of US\$291,948,000 based on the Group's target ownership represents the aggregate of the current values attributable to each of the individual developments (including the pipeline development) and should not be regarded as a valuation of the portfolio as a whole in the context of a single sale. Details of the assumptions and methodology adopted by the Industry Consultant are set out in the Industry Consultant's Report contained in Part V of this document.

## **Industry Consultant's Report**

Investors' attention is drawn to the full text of the Industry Consultant's Report prepared by DTZ, including the assumptions and methodologies set out therein, which is set out in Part V of this document. The Industry Consultant's Report provides further information on the above developments.

## **History and Development**

Boris Kuzinez, the founder, Chief Executive and indirect controlling shareholder of the Company, was one of the first developers to construct modern, Western-style buildings in Moscow. The Directors believe that his commitment to delivering high quality properties has gained him a reputation as a highly regarded developer in the Moscow real estate market. Prior to the formation of the Group, Boris Kuzinez, together with various partners, has been involved in the development of over 15 development projects comprising approximately 140,000 square metres of high-end office, retail and residential real estate situated in prime locations in central Moscow and the surrounding areas. The majority of these projects were financed by Boris Kuzinez without recourse to external third party financing. Further details of these projects are set out in paragraph 6 of Part VII of this document.

The Company was established in order to acquire certain development assets held by entities indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez, and by third parties, and to facilitate Admission. In the course of forming the Group, a number of related party transactions have been entered into. A majority of the Group's current developments, together with Project Bureau and Armix, the Group's property development and management subsidiaries respectively, were acquired from Boris Kuzinez or parties connected to, or controlled by, Boris Kuzinez. In respect of such acquisitions, the Group has made, or will make, payments totalling approximately US\$41,000,000 to Boris Kuzinez, or to parties connected to, or controlled by, Boris Kuzinez. Further details of such related party transactions are set out in paragraphs 8 and 9 of Part VII of this document. In connection with the formation of the Group, Boris Kuzinez has, indirectly, contributed the sum of US\$10,520,000 to the Company as a capital contribution, without the issue of shares, by way of cash and the waiver of debt.

Following Admission, and assuming no exercise of the Over-allotment Option, Boris Kuzinez will, indirectly through D.E.S., own 51.6 percent of the Company. If the Over-allotment Option is exercised, Boris Kuzinez will, indirectly through D.E.S., own 50.1 percent of the Company.

In September 2006, SSF III Father Holdings, an entity forming part of the Morgan Stanley group of companies, subscribed for Ordinary Shares which, at the time, represented a 15.4 percent shareholding in the Company, in consideration for investing US\$30,000,000 in the Company. Pursuant to such investment, SSF III Father Holdings was granted the right to appoint, and has appointed, a director, Glenn Aaronson, to the Board. Further details of the agreements relating to this investment are set out in paragraph 9.25 and 9.26 of Part VII of this document.

In connection with the Group's acquisition of 40 percent of the issued share capital of Ling Investments Limited ("Ling Investments") in November 2006, Kensington Gore, a third party unrelated to the Group, acquired Ordinary Shares which, at the time, represented a 12.49 percent shareholding in the Company. Such Ordinary Shares were acquired from D.E.S..

## **Competitive Strengths**

The Directors believe that the Group benefits from the following competitive strengths:

### *Extensive property development experience and contacts*

The Group's management has extensive experience in identifying and developing high-end office, retail and residential properties situated in prime locations in central Moscow and the surrounding areas. Boris Kuzinez, together with various partners, has been involved in the development of over 15 development projects in Moscow comprising approximately 140,000 square metres since the early 1990s. Over this period, Boris Kuzinez has built extensive contacts among local contractors, architects and suppliers, and has developed working relationships with Moscow's municipal and federal officials. The Directors believe that this extensive local experience and market knowledge is particularly important since property development in Russia is a complicated process involving practical problems that may not be present in Western markets. Due to his reputation for building high-end developments in the Moscow real estate market, Boris Kuzinez is regularly approached by parties looking to develop their properties, thereby providing the Group with a source of attractive development opportunities. Boris Kuzinez has agreed not

to compete with the Company in the development of office, retail or residential properties in the Russian Federation.

#### *Reputation for quality*

Through its association with Boris Kuzinez, the Directors believe that the Group will acquire a reputation for constructing high quality developments, and that such reputation will allow the Group to attract highly qualified project managers, employees, contractors and advisers. The Directors also believe that this recognition will enable the Group to continue to source attractive development opportunities, attract high quality tenants to its office and retail property developments and command premium prices on the sale of its residential developments.

#### *Attractive, centrally located portfolio of office, retail and residential development projects*

The Directors believe that the Group benefits from an attractive portfolio of office, retail and residential projects. All of the Group's current developments are centrally located, being within three kilometres of the Kremlin. The Directors believe that there is currently a shortage of high-end property developments in the Moscow real estate market and therefore expect that there will be significant demand for the Group's current and future developments.

#### *Diversified portfolio of developments*

The Directors believe that the Group benefits from a diversified portfolio of current developments, which comprise a combination of office, retail and residential projects and that such portfolio mix results in the Group being less exposed to downturns in one particular market sector. Furthermore, Boris Kuzinez's expertise in developing different types of assets will allow the Group to determine the optimal asset class to build on a particular site. The Directors also believe that Boris Kuzinez's property development experience will give the Company flexibility to redirect its emphasis between the development of office, retail and residential properties should the Directors wish to target a particular segment of the market in anticipation of future demand trends and market conditions in the Moscow real estate market.

#### *Integrated property management*

In general, the Group currently intends to retain ownership of its office and retail developments after completion of construction. Property management services to the Group will be provided by Armix, a property management subsidiary of the Company. Armix has staff with relevant experience and expertise in office and retail property management in Russia. As a result, no management fees will be paid to external management entities.

### **Strategy**

The Group's overall strategy is to create shareholder value through implementing the key strategies described below.

#### *Completion of existing developments and continuing to acquire attractive properties for future development*

The Group is currently in the process of developing five projects and expects to be granted rights in respect of a sixth project, all of which are expected to be completed between 2007 and 2009. The Group intends to achieve successful and timely completion of these developments. In addition, the Group intends to continue to source additional development projects in prime locations in central Moscow and the surrounding areas. The Group intends to develop and, where appropriate, manage its own projects, rather than purchase and manage existing projects completed by third parties. Such intention is based on the Directors' belief that the development and, where appropriate, management, of projects will provide substantially greater returns than the acquisition and management of completed developments.

#### *Office and retail developments*

The Directors currently view the development and construction of office and retail property in prime locations in central Moscow as a significant market segment. Driven by strong economic growth, the demand for high-end office and retail property space in central Moscow and the surrounding areas has increased following the 1998 financial crisis in Russia. However, the supply of such property has lagged behind demand due to high barriers to entry and the intrinsic difficulties of developing properties in

Moscow, thereby keeping the demand in Moscow for good quality office and retail property space at high levels. The Directors expect this trend to continue in the foreseeable future and therefore intend to allocate a significant proportion of the Group's capital resources to the development of high-end office and retail properties. In general, the Group intends to retain ownership of, and lease and manage the completed office and retail properties within its developments, in order to maximise the return on these properties and to produce a regular income flow. However, in the right market conditions, the Group may dispose of all or part of its office and retail properties if the Directors believe that doing so will optimise shareholder value.

#### *High-end residential developments*

The Directors currently view the development, construction and sale of high-end residential property as an attractive segment of the Moscow real estate market. The Directors believe that the market for residential property in Moscow is characterised by low supply per capita and ageing stock, and therefore, that demand for residential properties will continue to grow. Furthermore, the Directors believe that as disposable incomes, fuelled by strong economic growth, increase, demand will be particularly strong for high-end, Western-style residential properties. The Group expects to continue to build residential property developments principally in prestigious areas of central Moscow and maintain its commitment to constructing only high-end developments. The Directors believe that this strategy will enable the Group to continue to command premium prices on the sale of its residential property. It is the Group's current intention to dispose of its residential property developments upon completion of construction.

#### *Geographic focus*

Boris Kuzinez has developed his experience and expertise in the Moscow real estate market. Drawing on this experience, the Group will continue to focus its activities principally within or proximate to Sadovoe Koltso, Moscow's "Garden Ring" road, which, from a real estate perspective, is the generally accepted boundary of central Moscow. All of the Group's current developments are located within the Garden Ring. In certain limited circumstances, particularly in connection with the development of high-end residential properties, where the Company identifies specific attractive opportunities, the Group may develop properties in suburban Moscow.

#### *Leverage*

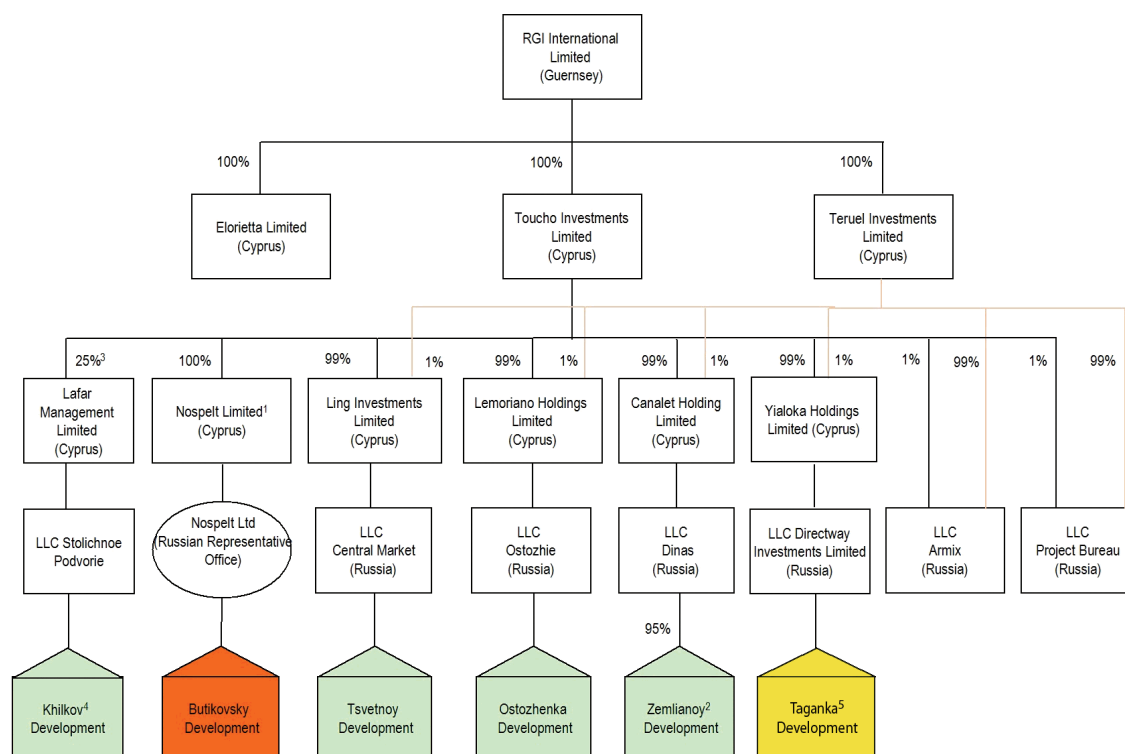
The Group currently has no material existing external indebtedness. Following completion of the Offer and Admission, the Directors expect the Company to raise external debt financing to optimise its capital structure and execute its business strategy.

### **Structure of the Group**

#### *Corporate structure*

The Group's developments are, with the exception of the Butikovsky Development, held through a series of Russian limited liability companies. These Russian companies are, in turn each held, directly and

indirectly, by companies incorporated in Cyprus. The Company directly and indirectly holds interests in such Cypriot companies. The Group's structure is represented diagrammatically in the following chart:



**Key:**

- Company
- Russian representative office (not a separate legal entity).
- Property development project – rights in these developments are held by the Group as at Admission.
- Property development project – rights in this development are expected to be transferred into the Group post-Admission, after completion of the development.
- Pipeline property development project – development rights in this project are expected to be acquired by the Group post-Admission, following the issue of a resolution of the Moscow Government. However, as at the date of this document, the Group does not have any land lease rights or any other rights to construct the Taganka Development.

**Notes:**

- (1) Nospelt has contractual rights as against Inpromtex (a non-Group company): (a) to be registered as owner of 70 percent of the Butikovsky Development upon completion of construction; and (b) to acquire the remaining rights in the Butikovsky Development held by Inpromtex following completion of construction and registration of Inpromtex's ownership right with the Department of the Federal Registration Service for Moscow. It is anticipated that Inpromtex will acquire the 10 percent of the completed above-ground office building and 20 percent of the underground car park held by the Moscow Government prior to, or upon, completion of construction, which would enable Inpromtex to transfer the remaining 30 percent of the Butikovsky Development to Nospelt upon completion of construction.
- (2) An interest in approximately five percent of the Zemlianoy Development is currently held by a City of Moscow authority, DIPS. Another City of Moscow authority, the Department of Property of the City of Moscow, will also have an interest in approximately 37.6 square metres of the completed Zemlianoy Development.
- (3) At the date of this document, the Group holds a 25 percent interest in Lafar Management. The remaining interest in Lafar Management is held by Litonor Financial (a third party unconnected to the Group). The Group has a contractual right to acquire, subject to certain conditions, a further 25 percent ownership interest in Lafar Management from Litonor Financial.
- (4) It is anticipated that the Group will enter into an investment contract with the Moscow Government in respect of the Khilkov Development, and that the Moscow Government will have no ownership interest in the Khilkov Development.
- (5) As at Admission, the Group does not currently have any land lease rights in relation to the Taganka Development, nor any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that the Moscow Government will grant such resolution on terms acceptable to the Company, or at all.



#### *Property development company—Project Bureau*

The Group conducts its construction management, design and technical supervision activities through Project Bureau. Project Bureau was acquired by the Group in June 2006 from Boris Kuzinez. Other than those currently held by third parties, Project Bureau holds the Group's development and design licences and provides technical supervision and construction management services for all of the Group's development projects. Further details of such licences are set out in paragraph 10 of Part VII of this document. Project Bureau generally becomes involved in a development at the pre-project design phase and this involvement continues until the completion of the construction works.

With respect to future new developments, it is intended that Project Bureau will enter into a separate "development agreement" with the relevant Group member that has an interest in a particular development. Under such agreements, Project Bureau will, among other things, arrange for the performance of preparatory work, prepare permits required for the construction of the development and liaise (either by itself or with third parties) with government, municipal and other authorities to obtain permits and approvals required for construction of the development.

Following Admission, it is intended that Project Bureau will provide property development services in respect of developments related to Boris Kuzinez that are outside the Group. Such developments are currently anticipated to include the Butikovsky Development (pending its transfer into the Group), and two further developments at Korobeinikov Lane and Molochny Lane. It is intended that such property development services will be provided on arm's length terms.

#### *Property management company—Armix*

The Group will conduct its property management activities through Armix. Armix will be responsible for the provision of day-to-day property management services for the Group's office and retail developments, once completed. Armix will also be responsible for managing the marketing and sale of completed residential developments. Armix was acquired by the Group in May 2006 from a party connected to Boris Kuzinez. Under Russian law, Armix does not itself require a licence or specific permits in order to engage in property management activities.

With respect to future new developments, it is intended that Armix will enter into a separate "management agreement" with the relevant Group member that has an interest in a particular development. Under such agreements, Armix, as the manager of the relevant development, will, among other things, market the retail and office properties to prospective tenants, manage the rent collection, manage the marketing and sale of completed residential developments, procure the maintenance of common areas, provide general building facilities management and provide administrative services to the Group (such as accounting, legal and company secretarial services). Armix has entered into such agreements with LLC Directway Investments, Dinas, Central Market and Ostozhie.

Following Admission, it is intended that Armix will provide property management services in respect of developments related to Boris Kuzinez that are outside the Group. Such developments are currently anticipated to include a development at Korobeinikov Lane. It is intended that such property management services will be provided on arm's length terms.

#### *Financing company*

The Group's wholly-owned subsidiary Elorietta Limited ("Elorietta") has been established by the Group to facilitate funding to the Group. Elorietta currently does not employ any staff. It is intended that, subject to any exchange control restrictions and applicable laws or tax regulations, finance obtained by the Group from time to time may be paid to or raised by Elorietta and then on-lent to relevant members of the Group to finance the Group's property developments.

#### **Relationship with Boris Kuzinez**

##### *Transactions in connection with the formation of the Group*

The Company was established in order to acquire certain development assets held by entities indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez, and third parties, and to facilitate Admission. In the course of forming the Group, a number of related party transactions have been entered into. Assets relating to the Tsvetnoy Development, the Butikovsky Development, the Zemlianoy Development and the Ostozhenka Development, and the shares of each of Armix and Project Bureau were

acquired from Boris Kuzinez or from parties connected to, or controlled by, Boris Kuzinez or, in respect of the Taganka Development, is expected to acquire such assets. In respect of such acquisitions, the Group has made, or will make, payments totalling approximately US\$41,000,000 to Boris Kuzinez, or to parties connected to, or controlled by, Boris Kuzinez. Further details of such related party transactions are set out in paragraphs 8 and 9 of Part VII of this document. As described in paragraph 8 of Part VII of this document, such transfers may not have been made on arm's length terms. In connection with the formation of the Group, Boris Kuzinez has, indirectly, contributed the sum of US\$10,520,000 to the Company as a capital contribution, without the issue of shares, by way of cash and the waiver of debt.

#### *Ongoing relationships and expected transactions in the future*

At the date of Admission, the Group has existing contractual relationships with entities indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. Certain pre-existing loan agreements will continue to be in effect following Admission, although it is intended that the Group will repay any outstanding amounts under such agreements after Admission and not incur any further borrowings under such agreements. Details of such agreements are described in paragraph 8 of Part VII of this document.

Following Admission, it is intended that Project Bureau and Armix will provide property development services and property management services, respectively, to developments controlled by Boris Kuzinez that are outside the Group. In respect of Project Bureau, such developments are currently anticipated to include the Butikovsky Development, and two further developments not owned by the Group at Korobeinikov Lane and Molochny Lane. It is intended that Armix will provide property management services in respect of the development at Korobeinikov Lane. It is intended that such services will be provided on arm's length terms.

As described in paragraph 8.5 of Part VII of this document, Armix will also lease office premises from an entity controlled by Boris Kuzinez at such Korobeinikov Lane development.

#### *Service agreement*

Boris Kuzinez is the founder, Chief Executive and indirect controlling shareholder of the Company. In his service agreement, Boris Kuzinez has agreed that during his tenure as Chief Executive, he will not be (whether directly or indirectly) engaged or concerned in the conduct of or have any financial interest in any other actual or prospective business which conducts office, retail or residential property development in the Russian Federation.

Restrictive covenants applicable upon termination of Boris Kuzinez's employment prevent Boris Kuzinez, for a period of 12 months after termination of his employment, from, *inter alia*, competing with the Group's business in the geographic area constituting the market of the Group in which Boris Kuzinez was materially concerned during the 12 months prior to termination or from supplying real estate development and management services to customers of the Group with whom Boris Kuzinez was materially concerned or had personal contact during the 12 months prior to termination, for 12 months after termination of his employment. Boris Kuzinez's service agreement also contains restrictive covenants applicable on termination of his employment preventing him from soliciting customers, suppliers or senior employees of the Group for a period of 12 months after termination of his employment. These restrictions do not prevent Boris Kuzinez from holding shares or securities of companies listed on any recognised stock exchange up to a maximum of five percent of the issued share capital of the relevant company.

Boris Kuzinez has agreed to devote at least 90 percent of his time and attention to the activities of the Company. Further details regarding Boris Kuzinez's service agreement with the Company are set out in paragraph 7 of Part VII of this document.

#### *RGI Shareholders' Agreement*

D.E.S., the Company's founding shareholder, is beneficially owned by Boris Kuzinez. Pursuant to the RGI Shareholders' Agreement, D.E.S. has, *inter alia*, given certain non-competition undertakings in respect of the Company for as long as it is a Shareholder and for a period of 24 months thereafter. Further, for as long as it remains a Shareholder, D.E.S. has undertaken to notify the Company of any business opportunity reasonably related to the Company's business and to use its reasonable endeavours to make such business opportunity available to the Company before pursuing any such business opportunity itself.

Further, under the RGI Shareholders' Agreement, in the event that Boris Kuzinez ceases to control D.E.S., SSF III Father Holdings has the right to require the Company to purchase all Ordinary Shares held by it and its affiliates, under a specified formula. However, the lock-up deed to which SSF III Father Holdings is a party prevents SSF III Father Holdings from exercising its put option under the RGI Shareholders' Agreement.

The rights and obligations described in the two preceding paragraphs cease to remain in force upon the expiry of the lock-up period agreed to by D.E.S. as described in paragraph 9.30 of Part VII of this document.

Under the RGI Shareholders' Agreement, in the event that, following Admission, D.E.S. proposes to sell Ordinary Shares constituting 30 percent or more of the Company's issued share capital to any one person, SSF III Father Holdings has a tag-along right in respect of all Ordinary Shares held by SSF III Father Holdings. This tag-along right has no fixed expiry date and continues in force while the RGI Shareholders' Agreement remains in force and effect. The ability to exercise this right will be subject to the restrictions set out in the lock-up deed to which SSF III Father Holdings is a party. Further details regarding the RGI Shareholders' Agreement are set out in paragraph 9.26 of Part VII of this document.

### *Inpromtex*

Inpromtex is not a member of the Group, but is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. Inpromtex has historically been directly involved in the Butikovsky Development and the Ostozhenka Development. Inpromtex has, in the case of the Ostozhenka Development, transferred certain of its interests to the Group, and, in the case of the Butikovsky Development, is under a contractual obligation to transfer its interests to the Group, in each case, as described under the heading "The Group's Current Property Developments" in this Part III. In connection with the transfer of the Butikovsky Development, the Group is also obliged to make certain payments regarding construction of the Butikovsky Development as further described in the section headed "The Group's Current Property Developments—Proposed acquisition of the Butikovsky Development by the Group".

Boris Kuzinez has agreed with the Company to procure that Inpromtex fulfils its obligations to transfer, to the relevant Group Company, its ownership in the relevant developments and companies and to procure that Inpromtex complies with its obligations under those agreements entered into between Inpromtex and the Group.

In addition, D.E.S. has agreed to indemnify the Company in respect of liabilities arising from certain non-Group related transactions entered into by affiliates of Boris Kuzinez.

### **Operational Activities of the Group**

The Group, through Project Bureau, Armix and the various holding companies described above, will be involved in all stages of property development, from identifying a potential property, managing design, permitting and construction, marketing to potential tenants or purchasers and managing leased office and retail properties going forward.

### *Investment decision process*

As a result of Boris Kuzinez's reputation, most future developments are likely to be sourced from third parties with development opportunities approaching the Group directly. In assessing the feasibility of a potential development opportunity, the Group will consider a range of factors, including:

- *Site assessment:* The Group will carry out a general assessment of the site and its location, based upon its knowledge of the area, the market and the Group's appraisal of the surrounding buildings and other developments.
- *Preliminary design:* The Group will explore preliminary design possibilities for a particular development which will typically be prepared internally by Project Bureau.
- *Estimated cost and value of the development:* In determining whether or not to proceed with a particular development, the Group will prepare an estimate of the cost to complete the construction of the development. Such estimates will be made on the basis of a detailed budget, which will include design and management costs, costs relating to the demolition of existing buildings, and construction and construction management costs. Such costs will be updated as the development process

progresses. The Group will also estimate the market value of the completed development. External valuations are not expected to be obtained, with the Group relying on its internal expertise.

- *Potential permitting and regulatory issues:* The Group will assess the likelihood of obtaining the required permitting, planning, zoning and environmental approvals relating to a particular development.
- *Environmental assessment:* The Group will assess any environmental regulatory approvals that may be required in connection with the potential development of a site.

The Directors will be responsible for approving any proposed property development being considered by the Company. Boris Kuzinez and his management team will be responsible for identifying new development opportunities for the Group. If a development opportunity is recommended by Boris Kuzinez, such opportunity will be presented to the Board for approval. Any decision regarding whether or not to proceed with any such property development opportunity must be approved by a majority of the Directors at a Board meeting. Board approval will also be required for any decision to sell any development completed by the Group.

Where a tender process is required (see “Overview of the Russian Legal and Regulatory Framework Relating to Land and Real Estate” in this Part III), the Group will prepare a tender pack based upon the scope of works to be undertaken. This pack will, *inter alia*, set out management’s estimation of the required works and the materials to be used and will highlight any preliminary features for the required works.

If the initial assessment of a development opportunity is approved by the Board, the Group will engage external architects to prepare more detailed concept design alternatives for a particular development. Discussions with the various City of Moscow authorities will normally commence at this stage to determine various preliminary issues such as whether there are or may be any issues relating to utility supplies to the relevant site. If the Group decides to proceed with a development, it may then enter into an agreement with one or more third parties to provide for their respective participation interests in the development. The Group intends to have at least a 50 percent economic interest in future developments and, to the extent possible, to maintain control over development and decision-making rights in respect of future developments.

The preliminary design suggestions for each development must be approved by various federal and City of Moscow authorities. This includes obtaining approval from the Department on Environmental Protection of the City of Moscow. Any environmental issues arising during the course of development will be addressed with the appropriate environmental authority.

#### *The construction process*

Once the Group has made the decision to proceed with a particular development, external architects will be engaged to prepare the final detailed concept design and plans. The Group intends to retain external architects to ensure that a contemporary approach is brought to the design of new projects. The process of obtaining the necessary development approvals and permits from the relevant federal and City of Moscow authorities will be managed by Project Bureau, together with third parties retained by the Group.

The Group will then typically engage an external “general contractor” to carry out the actual construction work. Project Bureau will maintain control of the construction process by adopting a construction management and technical supervisory role over the development. Project Bureau will also generally oversee the choice of subcontractors and the procurement of materials by the general contractor in order to maintain the Group’s quality standards. The general contractor’s scope of work will typically be agreed with Project Bureau at defined stages of construction of the development. This allows Project Bureau to monitor the progress and quality of construction and replace the general contractor or specify performance enhancements should this be required.

Upon completion of construction, all regulatory authorities involved in the development process will inspect the completed development to ensure that the Group and the general contractor have complied with the terms and conditions of any federal and City of Moscow approvals and regulations. The Group will generally deliver developments to tenants on a “shell and core” basis, which is common in the Moscow real estate market where a property is to be let to multiple tenants. This means that Project Bureau will procure the fit-out of common areas and individual tenants will be responsible for the fit-out of their respective leased areas.

### *Post-construction*

In general, the Group's strategy is to retain ownership of office and retail properties within its developments and lease such properties under medium to long term lease agreements. The Group may consider granting longer leases for large tenants. However, the Group may sell such office and retail properties if the Directors believe that it would be beneficial to do so based on an assessment of the market and current rental levels. The Group's strategy is to sell its completed residential developments. Sales of residential developments will be managed on a case-by-case basis by Armix.

Prior to completion of construction, the Group will commence marketing of a particular office, retail or residential development through Armix. Under Russian law, it is not possible for a developer to collect any rental income from a development until such developer is registered as the owner of the relevant building, which is relevant to the Group's office and retail developments. However, it is common market practice for a developer to allow a prospective tenant to pay a deposit and commence its fit-out works prior to the developer's formal registration as owner of the relevant building. Armix intends to work with property brokers and individual tenants to assist with the fit-out of each property. It is also intended that Armix will carry out ongoing management and administration of each of its office and retail properties, including arranging maintenance of common areas, security and the Group's invoicing and accounting functions.

As further described in the section entitled "Overview of the Property Development Process" in this Part III, the Group will formally acquire ownership of (or its proportionate ownership of) a particular development upon completion of a prescribed registration procedure following completion of construction.

### **Overview of the Russian Legal and Regulatory Framework Relating to Land and Real Estate**

The following discussion summarises certain relevant provisions of Russian legislation relating to land and other real estate. Such discussion, however, is not complete and is qualified in its entirety by reference to applicable Russian law.

#### *General provisions of Russian law*

Russia has historically had almost no formal regulation of private real estate ownership and many aspects of real estate law remain underdeveloped. While private ownership of buildings was introduced at the beginning of privatisation in Russia in the early 1990s, there was no uniform regulation of private ownership of land until the adoption of the Land Code in 2001. The Land Code together with the Civil Code and Town Planning Code and other laws permit private land ownership and the transfer of land from one person to another.

Land in the Russian Federation is divided into specific categories depending on the designated purpose of such land. Land must only be used in accordance with its designated purpose. The main procedures for changing the designated purpose of land are set forth by the Land Code and the Federal Law on Change of the Category of Land and Land Plots, which was adopted at the end of 2004. Under the Land Code, state (being both federal and regional) and municipally owned land plots may be sold or leased to Russian and non-Russian persons or legal entities. However, certain land plots are withdrawn from circulation and may not be sold or leased (e.g. nature reserves and land used for military purposes). In addition, certain types of land may not be owned by foreign nationals, such as land located at the Russian border.

Under Russian law, it is possible for different parties to own a building and the land beneath such building. However, the sale of a building automatically gives the purchaser such rights to the land beneath the building as are necessary for the use of that building. The owner of a building located on another party's land has a priority right to buy or lease such land. Where the vendor of a building owns the land as well, that vendor's ownership rights to the land are normally also transferred to the purchaser.

The Land Code establishes the procedure for privatising both state and municipally owned land. The Land Code also determines the maximum payment owners of buildings on a plot of land may be required to make for the land. Although private ownership of land is increasing, it remains relatively rare in most parts of Russia. With a few exceptions, the land in Moscow is owned by the Moscow Government. In addition, the sale and lease of land in the City of Moscow is subject to a separate regulatory regime administered by the Moscow Government and set forth in the Moscow Law on Land Use and Construction in the City of Moscow dated 14 May 2003. The majority of land in Moscow is occupied pursuant to lease agreements between owners of the structures on the land and the City of Moscow. Typically, a developer receives land lease rights for an initial three to five year term (i.e. for the period of construction). As a general rule, such



land lease rights are granted by the City of Moscow on the basis of an auction or tender, typically in connection with either an upfront payment made to the City of Moscow (in respect of a long term land lease) or the entry by the developer into an investment contract with the Moscow Government, together with, in each case, ongoing consideration in the form of periodic lease payments. Subject to the successful implementation of the land plot development and the fulfilment by the developer of the various obligations under the investment contract with the Moscow Government, the developer receives land lease rights for a term of between 25 and 49 years, at the discretion of the Moscow Government. As a rule, such land leases contain renewal rights. Renewal rights remain largely untested to date given the fact that most existing leases remain unexpired and are decades away from expiration. In accordance with applicable City of Moscow legislation, a developer becomes the owner of the building/structures on the land in Moscow, but as a general rule, does not become the owner of the land on which such building/structures are located.

Under the Land Code, legal entities generally have one of the following rights with regard to land plots: (i) ownership; (ii) right of free use for a fixed term; or (iii) lease. Legal entities may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on the Introduction of the Land Code requires legal entities using land pursuant to a right of perpetual use (excluding certain state-owned enterprises and state and local authorities) either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant government or locality which owns the land by 1 January 2008. Most land used by legal entities in Russia is held by them pursuant to a right of perpetual use. This requirement also applies to land on which buildings are located. At the discretion of a purchaser of the relevant premises, such land plots can be transferred to the purchaser either by lease or title transfer.

Russian law provides that land or buildings may be expropriated for “state or local needs”. The owner of expropriated real estate is entitled to one year’s advance notice together with payment of the full market value and compensation for any other losses suffered.

Under Russian law, state-owned land in the Russian Federation may only be owned by federal (the Russian Federation), regional and municipal authorities. Historically, such state-owned land has not been registered in the name of any particular state authority. However, in 2001, the Russian Federation began a delineation process whereby such state-owned land is to be registered in the name of a particular authority, either federal, regional or municipal. This delineation procedure is complicated and has not yet been completed. From 1 July 2006, state-owned land plots underlying buildings owned by the Russian Federation or regional or municipal authorities are deemed to be delineated, such that the entity which owns a building located on the relevant land plot is deemed to have the right to dispose of such land plots (for example, Russian federal authorities have the right to dispose of land plots underlying federal buildings).

#### *Obtaining land plots for construction purposes*

Russian and non-Russian persons and legal entities may acquire land held by federal, regional or municipal authorities for development and the construction of buildings. The Land Code draws a distinction between land plots granted for construction purposes with and without prior approval of the relevant authorities for the location of a building on the land plot. The grant of ownership or lease of land plots for construction purposes without such approval can only be made by tender or auction. The grant of land plots with prior approval for the construction of buildings on the land plot can be made without tender or auction. Such tender or auction is conducted by the relevant authority that has the rights to dispose of such land. In Moscow, such decisions are taken by the federal authorities, by the Moscow Government or by prefects of the administrative districts, depending on the type of construction. As a general rule, a land plot for residential construction can be granted only by auction. However, Russian law provides for some exceptions to this rule, for example, the grant of a land plot as compensation for a land plot that has been compulsorily acquired by state authorities.

#### *State registration of rights to immovable property*

All rights to immovable property and certain related transactions (such as lease agreements with terms of not less than one year and mortgage agreements) are subject to state registration in the Register of Immovables as provided by the Civil Code and the Federal Law on State Registration of Rights to and Transactions with Immovable Property. Ownership rights to immovable property arise only after such rights have been registered. Failure to register a transaction in respect of immovable property that requires registration with state authorities within the prescribed period results in the transaction being voidable.

Rights to immovable property and certain related transactions are registered by the relevant local department of the Federal Registration Service in the territory where the property is situated (in Moscow it is the Department of the Federal Registration Service for Moscow). It is possible for members of the public to search the register.

#### *Inconsistencies between federal and City of Moscow legislation*

Land in Russia is subject to federal, regional and municipal regulation. On the one hand, City of Moscow authorities are entitled to regulate matters relating to land. On the other hand, Moscow regional and municipal legislation must not contradict federal law. In practice, however, certain aspects of Moscow regional and municipal legislation may contradict federal law. Historically, a material example of such inconsistency related to the private ownership of land in Moscow. While the Land Code (federal legislation) allows for the private ownership of land (as described above), the City of Moscow law “On Use of the Land and Development” (regional legislation) historically has not. While federal legislation is in theory superior to that of the City of Moscow, in practice, to date there have been few instances of private ownership of land within the City of Moscow. However, as described in the following paragraph, City of Moscow authorities have recently implemented regulations which address this position.

#### *Recent changes to City of Moscow legislation*

On 27 June 2006 the Moscow Government adopted Decision No. 431-PP “On Transfer of Land Plots Located on the Territory of the City of Moscow to Private Ownership” which came into force on 27 July 2006. Decision No. 431-PP specifically prescribes procedures for the transfer of land ownership rights to private persons. In this respect, the City of Moscow regulations relating to land are now consistent with federal law. However, this law is new and as such, its interpretation and implementation in practice remain unclear.

Prior to 1 July 2006, in general, only the Moscow Government and other city local authorities were able to allocate land to developers for construction projects where such land is not delineated between the City of Moscow and federal authorities. However, from 1 July 2006, federal authorities are entitled to allocate land to developers on sites where federal buildings are currently located and where such land is not delineated. This legislative change restricts the rights of the City of Moscow authorities to allocate such land. The City of Moscow authorities are currently seeking to restore the pre-1 July 2006 position. This legislative change is not expected to affect any of the Group’s current developments.

#### *Land and real property payments and taxation*

##### *Payment for land use*

Lessees under land leases in Moscow are required to make rental payments (usually to the Moscow Government). Such rental payments are usually calculated on an annual basis and paid quarterly, and may be determined by an agreement between the relevant parties. In Moscow, the rental rate for a land plot is calculated as a percentage of the value of the relevant land plot according to the designated purpose of use of such land plot and certain additional conditions for its use.

Where lease agreements are entered into with the Moscow Government, the Moscow Government can, within its complete discretion and without the consent of the tenant (i.e. the Group), increase the amount of the rent payable. Such lease payment rates in Moscow are determined from time to time by the Mayor of Moscow pursuant to Article 5 of the Law on Payable Use of the Land. Any determination to increase such rental rates will apply to all tenants of the Moscow Government within that category of tenants to which the increase applies. The ability of the Moscow Government to increase rental rates is commonly provided for in the terms of the relevant lease.

##### *Property tax*

According to the Tax Code of the Russian Federation, property tax is payable by Russian organisations and foreign organisations operating in Russia (which maintain a permanent establishment and own property in Russia) on the average annual book value of their fixed assets. Foreign organisations which do not operate in Russia via a permanent establishment, but do own immovable property situated in Russia, are subject to property tax with respect to that immovable property. In this case, property tax is levied on the inventory value of immovable property, which is determined based on information from technical inventory organisations. The tax rate is established by regional authorities of the Russian Federation but may not

exceed 2.2 percent per annum. Currently, in Moscow the tax rate is 2.2 percent per annum. Land and certain non-productive types of property are exempt from taxation. Property tax is payable on a quarterly basis. In the case of construction that is in progress, property tax is only payable once construction of the relevant asset has been completed.

#### *Land tax*

Land tax is also payable pursuant to the Tax Code of the Russian Federation. Among those liable to pay such tax are physical persons and legal entities holding title to land plots in the Russian Federation. The tax rate is established by the local Russian authorities (e.g. in Moscow by the Moscow Government) but may not be higher than 0.3 percent of the taxable base for agricultural and residential lands and higher than 1.5 percent of the taxable base for other lands. For legal entities, the tax is payable on a quarterly basis.

With regard to land plots purchased by legal entities in ownership after 1 January 2005 for the purposes of housing construction, land tax rates may be increased by the following multipliers: (i) 2—during the first three years of the period of planning and construction until the ownership right for the finished development is registered (if the construction is completed and the right of ownership is registered within this three-year term, the amount of the land tax paid in excess of the usual land tax rate shall be repaid to the taxpayer); and (ii) 4—beyond the three-year period stated above until the ownership registration for the finished development, in which case the amount of the land tax paid in excess of the usual land tax rate shall not be repaid to the taxpayer.

### **Overview of the Property Development Process**

#### *Structuring options and regulatory requirements*

In order to develop property in Moscow, a developer must obtain a variety of municipal, regional and federal authority approvals and permits. In general, a development company may structure its development rights in one of the following three ways:

- **Investment contract**

One common means for a developer to acquire development rights is to enter into an “investment contract”. Such contracts are entered into with the Moscow Government, and set out, *inter alia*, the terms upon which the developer will carry out construction and each party’s share of the development upon completion of the project. Under an investment contract, the Moscow Government generally retains an interest of up to 50 percent in the completed building or structure, although as described below, the Moscow Government usually agrees to sell its share to the developer. The Moscow Government’s share may be lower where the developer agrees to incur additional expenditure in relation to the development (relating to, for example, enhancements to the City of Moscow’s infrastructure). Typically, under an investment contract, where the Moscow Government retains partial ownership of development, the relevant developer will be entitled to less than 100 percent of the revenues from the lease or sale of the development. However, the developer may still have a proportionately higher (typically 100 percent) liability for the construction costs of such development.

Under the investment contract arrangements, the developer becomes the owner of the completed building or structure, subject to any interest retained by the Moscow Government, but does not become the owner of the land upon which such building or structure is located. The investment contract provides for the grant of a short term land lease for the purpose of carrying out construction on the relevant land plot. Upon completion of construction, as a matter of Russian law, the developer has a right to be granted a long term lease (for a period of up to 49 years) upon registration of the completed development. Under both such short term and long term land leases, the developer is required to make periodic lease rental payments (generally on a quarterly basis) to the Moscow Government.

The Moscow Government generally agrees to the developer buying out its share of the building or structure prior to, or upon, completion of construction. The amount to be paid by the developer for the Moscow Government’s share of the completed development is intended to reflect the fair market value of such share, and is determined by a valuation of such share carried out by a valuer chosen by the Moscow Government. Once the valuation of such share has been approved by the Moscow Government, the developer may, subject to the Moscow Government’s overriding discretion not to sell, acquire the Moscow Government’s share of the completed development.

If a developer does not, or is unable to, acquire the share of the Moscow Government in a completed development, upon completion of the development, the Moscow Government would become the registered owner of such part of the building as represents its share pursuant to the investment contract.

Prior to an investment contract being entered into with the Moscow Government, pursuant to Resolution No. 3-RP, a resolution of the Moscow Government dated 12 January 2006, the Moscow Government requires the developer to obtain a bank guarantee in favour of the Moscow Government. As such rules are relatively recent, the precise nature of the bank guarantee required remains unclear. The amount of such bank guarantee depends on the type of development. For example, for multifunctional complexes (which term is not defined), the amount of the bank guarantee is determined on a case by case basis. Other types of development will require a bank guarantee for an amount of up to 30 percent of the expected investment required for the relevant development.

A “co-investment contract” is a variation to an investment contract whereby DIPS, a City of Moscow authority, can be authorised by the Moscow Government to conclude contracts pursuant to which DIPS will participate in the construction of a development.

- Obtaining a long term land lease prior to commencement of construction

As an alternative to an investment contract, a developer and the Moscow Government may agree that a developer may pay a single lump sum to the Moscow Government for the grant of a long term land lease prior to the commencement of construction. Such single lump sum is usually approximately equal to the amount that would have been payable by a developer to acquire the Moscow Government’s share of the building or structure if an investment contract route had been chosen. Such single lump sum is determined on a basis prescribed by the Moscow Government from time to time, and is determined by reference to factors such as the size of the land plot, the site’s location and its proximity to amenities. Although there is no fixed term, such leases are commonly granted for a period of 49 years. In such case, neither a short term construction land lease nor an investment contract will be entered into between the developer and the Moscow Government. The main advantages of this approach are, firstly, that the developer will make a payment of a pre-agreed amount prior to commencing construction for its rights under the long term land lease, as opposed to buying out the Moscow Government’s share of the development for an amount to be approved by the Moscow Government at a later stage. Secondly, the developer is likely to become the registered owner of the completed building or structure more rapidly than where an investment contract has been entered into. This is because the execution of a form of final protocol certificate confirming that the obligations of the respective parties to the investment contract have been satisfied is not required where a long term land lease was initially entered into.

Under such long term land lease arrangements, the developer is required to make periodic rental payments (generally on a quarterly basis) to the Moscow Government. The amount of such payments is determined by reference to a formula prescribed under a resolution passed by the Moscow Government. Such formula contains a number of components which determine the amount of rent to be paid by each tenant. Such components include the size and location of the relevant land plot and the nature of the tenant’s business. In general, the same payment formula applies to all commercial tenants in the City of Moscow; however, there may be a limited ability for developers to negotiate with the Moscow Government on a case by case basis. As described above under the heading “Payment for land use”, such payments may be increased by the Mayor of Moscow from time to time.

- Existing land lease or ownership rights to the building

A developer may acquire rights under an existing land lease for the remaining term of such lease. If a developer acquires an existing building for redevelopment, it automatically acquires the rights under the existing land lease relating to such building for the remaining term. In each case, the permitted use specified in the existing land lease may need to be amended to allow the developer to either develop the site or redevelop the building for its intended use. If the area of the proposed new building is to be greater than the area of the existing building, the developer will either need to enter into an investment contract with the Moscow Government or obtain a long term land lease prior to commencement of construction in respect of the additional area. Depending on the route chosen by the developer, the additional area is treated in the same manner as described in either the section entitled “Investment contract” or “Obtaining a long term land lease prior to commencement of

construction” above. In such cases, the existing land lease may need to be amended in respect of the permitted use of such land, subject to the developer’s construction needs.

The Group utilises two of the above approaches with respect to its current and pipeline developments, as summarised in the table below.

<b>Development</b>	<b>Method of Acquiring Development Rights</b>
<b><i>Properties in the course of construction</i></b>	
Butikovsky Development	Investment contract between the Moscow Government and Inpromtex, a non-Group company (the Butikovsky Investment Contract).
<b><i>Properties held for development</i></b>	
Ostozhenka Development	Ostozhie is in the process of acquiring rights under an existing lease from Inpromtex (relating to the acquisition of the Ostozhenka Building).
Tsvetnoy Development	Central Market acquired rights under an existing lease (upon acquisition of the Tsvetnoy Building).  It is expected that Central Market will enter into an investment contract with the Moscow Government regarding the Tsvetnoy Additional Land Plot (the additional area required in relation to the Tsvetnoy Development).
Zemlianoy Development	Co-investment contract between DIPS and Dinas (the Zemlianoy Co-Investment Contract).
Khilkov Development	It is expected that Stolichnoe Podvorie will enter into an investment contract with the Moscow Government.
<b><i>Pipeline Properties</i></b>	
Taganka Development	Although no formal resolution of the Moscow Government has been granted relating to the Taganka Development, the Directors expect that LLC Directway Investments will enter into an investment contract with the Moscow Government.

#### *Pre-construction phase*

The following general requirements must be satisfied in connection with the development of the relevant site. Prior to the commencement of construction on any land plot in Moscow, if the relevant land plot is not subject to an existing lease, a developer is required to enter into, in each case with the Moscow Government, either a short term land lease agreement pursuant to an investment contract or a long term land lease agreement. In the case of a short term land lease, the term of such lease is for the estimated period to complete construction, and in the event of any delays in completion of construction, an extension of the term is generally granted by the Moscow Government (although there is no assurance that such extension will be granted).

Once the lease agreement has been executed or if there is an existing lease agreement, the developer must prepare the permitting documentation for construction, which consists of applications for various approvals and permits. The preliminary design stage includes obtaining approvals for the development’s “preliminary design suggestions”, which constitute the legal grounds for issuing a “town planning substantiation” and the “Act of Permitted Use of Land Plot”. The approval of the preliminary design suggestions requires obtaining approvals and consents from various federal and City of Moscow authorities, including environmental, architectural, land, sanitary, geological and other authorities. A developer may be required to obtain a town planning substantiation if the intended construction does not comply with the applicable zoning or other town planning requirements. Depending on the location of the land plot, the developer may also be required to obtain a resolution of the relevant Moscow authority for construction on the relevant land plot. In general, the lease agreement, the necessary approvals and consents and the resolution of the Moscow Government (or the local prefecture) (together, the “Pre-Construction Phase Documentation”) must all be entered into or obtained by the entity that is to carry out the development.



### *“Act of Permitted Use of Land Plot” and construction permit*

Once a developer has obtained all of the Pre-Construction Phase Documentation, it is required to obtain an Act of Permitted Use of Land Plot from the Moscow Committee on Architecture and Town Planning. The Act of Permitted Use of Land Plot may contain certain additional conditions in addition to any conditions prescribed in the Pre-Construction Phase Documentation. An Act of Permitted Use of Land Plot is valid for one year from registration. The Moscow Government or relevant local prefecture then issues a so-called “resolution on construction” on the basis of the Act of Permitted Use of Land Plot. Once such resolution is issued, the developer must then prepare the design documentation (which must be approved in compliance with applicable law) and obtain a construction permit from the Architectural Authority of Moscow before commencing construction. In respect of each development, it typically takes between 12 and 18 months for a developer to obtain all of the Pre-Construction Phase Documentation, the Act of Permitted Use of Land Plot, the resolution on construction and the construction permit.

It is also common for developers in Moscow to obtain short term leases over land plots adjacent to those land plots upon which construction of the relevant development is to commence. Such additional land plots are typically leased, on an “as required” basis, during the period of construction to house workers and for storage of construction materials, in each case, where the primary land plot is of insufficient size for this purpose.

### *Construction licences*

Under Russian law, activities relating to the construction of buildings currently require a number of licences. Such licences relate to the entity holding such licence and are not specific to a particular development. The Construction Licensing Regulation dated 21 March 2002 requires separate licences for the carrying out of (i) engineering surveys, (ii) design works and (iii) construction. Under the Construction Licensing Regulation, “construction” means both carrying out construction works and performing the functions of a so-called “customer-developer” (*zakazchik-zastroyschik*). Although “customer-developer” is not defined under the Construction Licensing Regulation, in practice, a “customer-developer” is broadly the equivalent of a project manager and is the entity that controls construction and concludes agreements with contractors. The Construction Licensing Regulation currently requires a licence to be obtained for the performance of construction works (a “Construction Licence”) as well as for performing the functions of a “customer-developer” (a “Customer Licence”). From 1 January 2007, the requirement to obtain a Construction Licence and a Customer Licence will be abolished, although certain governmental authorities are seeking to reverse this proposed abolition.

The Town Planning Code of the Russian Federation No. 190-FZ, dated 29 December 2004 (the “New Code”) contains new definitions for “developer” (*zastroyschik*) and “customer” (*zakazchik*). Under the New Code, the developer and the customer represent two different entities. The developer has ownership or lease rights to a land plot and procures the performance of engineering surveys, design and construction works on the land plot. The developer is entitled to carry out engineering surveys, design and construction works itself or, alternatively, to hire contractors for the performance of such works. Such contractors can be hired by the developer itself or by the developer’s representative—the “customer”. Although not contained in the Construction Licensing Regulation, current court practice suggests that a customer, or a developer that directly hires contractors, must possess a Customer Licence. If a developer indirectly hires contractors through the “customer”, the developer does not itself require a Customer Licence. If the requirement to obtain a Construction Licence and a Customer Licence is abolished from 1 January 2007, the New Code will remain relevant in practice to distinguish the construction relationship between these various entities.

### *Upon completion of construction*

Upon completion of construction, a “Certificate of Commissioning of the New Building” is required to be signed by the developer, the general contractor, the design organisation and various government authorities involved in the commissioning process (such as the State Acceptance Committee) which confirms that the development complies with all of the Pre-Construction Phase Documentation. A resolution of the prefecture of the relevant district (in the case of land plots in Moscow, the relevant administrative district), which approves the Certificate of Commissioning of the New Building, must also be obtained upon completion of construction. Final measurements of the completed building for the purposes of state registration must be completed by the Bureau of Technical Inventory.

The parties to any relevant investment contract are also required to execute a form of final protocol certificate confirming that all of their respective obligations under the investment contract have been fulfilled.

The Certificate of Commissioning of the New Building, the resolution of the prefecture of the relevant district, the investment contract (where relevant), the final protocol certificate relating to any investment contract and the measurement documentation prepared by the Bureau of Technical Inventory are required to be submitted to the Department of the Federal Registration Service for Moscow, which then issues a “Certificate of Registration of Rights”. Under Russian law, as a general rule, rights to immovable property arise upon state registration in the Register of Immovables. Such registration is evidenced by a Certificate of Registration of Rights as well as an extract from the Register of Immovables. Registration in the Register of Immovables represents an entitlement to the issue of a Certificate of Registration of Rights.

In the event that construction is delayed for more than three years from the date specified in the construction permitting documentation as the development’s proposed completion date, the developer will be subject to a fine of between 50,000 Roubles and 100,000 Roubles. The City of Moscow has proposed to increase the administrative fine up to an amount of 5,000,000 Roubles (approximately US\$185,000).

#### *Long term land lease*

In the event that an investment contract has been entered into (or, alternatively, after an existing long term lease has expired), provided that construction has been completed and the Certificate of Registration of Rights has been obtained, the developer and any co-participants, as the registered owners of the building, have an exclusive right pursuant to the Land Code to obtain a long term land lease from the Moscow Government. Each land lease is generally for a 49-year term and, as under the Land Code the relevant land plot cannot be leased or sold to any entity other than the owner of the relevant building, is renewable upon expiry. Such land lease must be registered with the Department of the Federal Registration Service for Moscow. If a long term land lease was obtained in order to commence construction, it is usual for such lease to remain in force. Once it expires, by virtue of registered ownership of the relevant building, the owner is entitled to be granted a new long term land lease from the Moscow Government.

#### **The Group’s Current Property Developments**

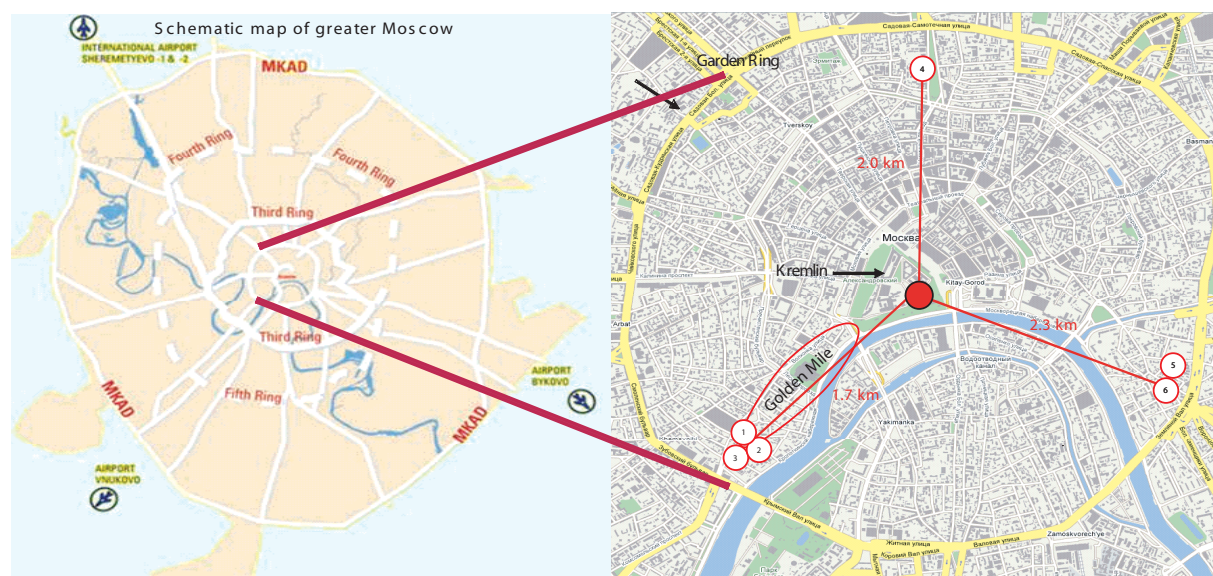
The Group is currently in the process of developing five properties. Development of these properties is at a very early stage, and construction has commenced in respect of only one property. These projects comprise one primarily retail development at 15/1 Tsvetnoy Boulevard (estimated gross internal area of 38,653 square metres), two primarily office developments at 15 Butikovskiy Lane (estimated gross internal area of 8,929 square metres) and 70/1 Zemliany Val Street (estimated gross internal area of 10,491 square metres) and two primarily residential developments at 3/1 Khilkov Lane (estimated gross internal area of 32,000 square metres) and 37/7 Ostozhenka Street (estimated gross internal area of 1,379 square metres).

In addition, the Group has one pipeline office, retail and residential development at 5-13 Nizhniy Tagansky Lane (estimated gross internal area of 67,995 square metres)—the Taganka Development. The Group does not currently have any land lease rights in relation to the Taganka Development, or any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development. While the Group expects to obtain a resolution of the Moscow Government entitling it to carry out construction of the Taganka Development, there can be no assurance that the Moscow Government will grant such resolution on terms acceptable to the Group, or at all.

The future combination of office, retail and residential developments will depend on the opportunities presented to the Group and may change over time. The Group’s current and pipeline development projects are described below.

## Geographic overview

The map below identifies the location of the Group's current and pipeline developments relative to the Kremlin.



### Key:

- |                           |                         |
|---------------------------|-------------------------|
| 1. Ostozhenka Development | 4. Tsvetnoy Development |
| 2. Butikovsky Development | 5. Zemliany Development |
| 3. Khilkov Development    | 6. Taganka Development  |

## Properties in the Course of Construction

### *Butikovsky Development*

#### *Description of the Butikovsky Development*

The Butikovsky Development is a proposed office building, preliminary construction of which has commenced. The Butikovsky Development is expected to be completed during the second quarter of 2007.

The Butikovsky Development is located at 15 Butikovsky Lane, in close proximity to Prechistenskaya Embankment in Ostozhenka, part of Moscow's so-called "Golden Mile". Property values in Ostozhenka have risen considerably in recent years.

The Butikovsky Development will comprise eight levels, including two underground levels. The two underground levels will be used for parking for 97 vehicles. The gross internal area of the completed building will be approximately 8,929 square metres, including six floors of office space of approximately 4,682 square metres. The two underground levels will extend to approximately 3,007 square metres. The remaining space (approximately 1,240 square metres) will consist of common areas and ancillary and maintenance areas. The total land area of the developed site will be approximately 0.208 hectares.

The proposed office building will have a reinforced concrete frame, and a monolith-reinforced concrete platform foundation. The exterior walls will consist of brick, insulated with Rockwool, and have an exterior finish of stone and leaded aluminium structures. The floor of the ground floor interior lobby will consist of natural stone, granite and marble, and the interior walls will consist of natural stone and glass.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Butikovsky Development:

- estimated value upon completion: US\$38,264,000 (excluding VAT);
- estimated market value in its existing state: US\$22,954,000 (excluding VAT); and
- estimated market rental value upon completion: US\$4,321,000 per annum (excluding VAT and service charges, and assuming full occupation).

Such valuation estimates are based on a 100 percent ownership interest in the development. As described below, following completion of construction, and certain payments being made by the Group to Inpromtex as described below, it is intended that the Group will hold 100 percent of the Butikovsky Development.

*Proposed acquisition of the Butikovsky Development by the Group*

The Butikovsky Development is an existing project currently being developed by Inpromtex, a non-Group company that is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. As described below, Inpromtex is a party to the Butikovsky Investment Contract, pursuant to which Inpromtex is entitled to a 90 percent interest in the completed office building and an 80 percent interest in the development's underground car park. The remaining interest in such office building and underground car park is currently held by the Moscow Government. It is intended that Inpromtex will acquire the interest held by the Moscow Government prior to completion of construction.

At Admission, the Group will not have ownership rights in respect of the Butikovsky Development. However, through a series of agreements entered into in October 2006 between the Company's wholly-owned subsidiary Nospelt and Inpromtex, Nospelt will have a contractual right to have a 70 percent interest in the Butikovsky Development registered in its name upon completion of construction and a contractual right to have the remaining 30 percent interest (assuming the prior acquisition by Inpromtex of the Moscow Government's share) in the Butikovsky Development transferred to it by Inpromtex, upon registration of such 30 percent interest in Inpromtex's name following completion of construction. The payments to be made by the Group required in relation to such agreements are described below.

The process by which the Group is to acquire the Butikovsky Development is further described below.

The Butikovsky Development is being constructed by Inpromtex on the site formerly occupied by the Old Butikovsky Building, which was owned by the City of Moscow. The Old Butikovsky Building was demolished pursuant to Resolution No. 297-RP dated 27 February 2004. Construction of the Butikovsky Development is being carried out on the basis of, and governed by, the Butikovsky Investment Contract described below. Federal State Unitary Enterprise "Efir" was the previous tenant of the Old Butikovsky Building and was entitled to participate in the redevelopment of the 15 Butikovsky Lane site under the terms of the previous land lease agreement between Efir and the Moscow Government.

Pursuant to the Butikovsky Investment Contract, Inpromtex and the Moscow Government undertook to construct the Butikovsky Development on the condition that the Moscow Government contributed the Old Butikovsky Building to the project and granted Inpromtex the Butikovsky Land Lease. Inpromtex provided (i) financing for the project in the amount of US\$6,000,000 and (ii) the physical relocation of Efir to new premises (which premises Inpromtex was not required to purchase or finance). Under the initial terms of the Butikovsky Investment Contract, Efir was entitled to 30 percent of the completed office building; however, such interest was subsequently acquired by Inpromtex. An amendment to the Butikovsky Investment Contract dated 4 September 2006 confirms the revised ownership entitlements to the completed Butikovsky Development, whereby Inpromtex is entitled to a 90 percent interest in the completed office building and an 80 percent interest in the development's underground car park. The remaining 10 percent share of the completed office building and the 20 percent share of the underground car park is held by the Moscow Government.

Under the terms of Resolution No. 297-RP, Inpromtex is permitted (but not automatically entitled) to acquire the share held by the Moscow Government, upon payment of an amount determined by a valuer retained by the Moscow Government. Either prior to, or upon, completion of construction, it is anticipated that Inpromtex will acquire the Moscow Government's interest in the Butikovsky Development. As such acquisition involves negotiation with the Moscow Government, there can be no assurance that Inpromtex will be able to acquire such interest on terms satisfactory to it or the Group, or at all. Further details of the Butikovsky Investment Contract are set out in paragraph 9.4 of Part VII of this document.

By virtue of Resolution No. 297-RP, the Moscow Government agreed in principle to sell its share to Inpromtex, which enables Inpromtex to enter into agreements that relate to 100 percent of the Butikovsky Development through the series of agreements described below, and thereby transfer the Butikovsky Development into the Group.

Pursuant to the Butikovsky Agreement on Share Participation dated 23 October 2006 (as amended and restated on 15 November 2006), Nospelt acquired certain contractual rights to the ownership of 70 percent of the Butikovsky Development comprising 3,132.5 square metres above ground and 3,117.8 square metres (comprising 68 parking lots and 70 percent of the common areas and the service areas) in the proposed



underground car park. The consideration payable to Inpromtex by Nospelt for such acquisition is US\$16,200,000, payable in instalments as construction of the Butikovsky Development progresses. Inpromtex is required to execute documentation (a “Certificate of Acceptance and Delivery”) to transfer 70 percent of the Butikovsky Development to Nospelt within seven business days of the issue of a commissioning permit (a final approval required in respect of a newly constructed building prior to registration of ownership rights). Such transfer is to occur no later than 30 October 2007. In the event of a delay of such transfer by Inpromtex, Inpromtex will incur a financial penalty, or alternatively, Nospelt may terminate the agreement and Inpromtex is required to return any instalments paid by Nospelt in relation to the construction of the Butikovsky Development. Effecting the registration of Nospelt’s ownership interest in the Butikovsky Development involves the following key steps:

- Prior to completion of construction of the Butikovsky Development, the Butikovsky Agreement on Share Participation is to be registered with the Department of the Federal Registration Service for Moscow pursuant to the Federal Law “On Participation in Shared Construction of Multiple-Dwelling Houses and Other Immovable Properties” dated 30 December 2004. Application for registration was submitted in October 2006 and registration is expected to be completed before the end of 2006. The Butikovsky Agreement on Share Participation only becomes effective once such agreement has been registered.
- Such registration will enable Nospelt to require Inpromtex, upon completion of construction of the Butikovsky Development, to sign a Certificate of Acceptance and Delivery in respect of 70 percent of the Butikovsky Development (as described above). Such Certificate of Acceptance and Delivery is a precondition to registration of Nospelt as the owner of 70 percent of the completed Butikovsky Development.
- Following completion of the above, Inpromtex and Nospelt shall apply for registration of ownership of the completed development in the Register of Immovables (i.e. a Certificate of Registration of Rights), pursuant to which registration, Nospelt would become the registered owner of 70 percent of the completed Butikovsky Development with, assuming the prior acquisition of the share held by the Moscow Government, Inpromtex holding 30 percent.

Pursuant to the Butikovsky Preliminary Agreement dated 23 October 2006, Nospelt and Inpromtex agreed to execute the Butikovsky Agreement on Sale of Real Estate. Pursuant to these agreements, Nospelt shall acquire from Inpromtex the ownership of 30 percent of the Butikovsky Development following completion, comprising an area of 1,324.5 square metres above ground and an approximate area of 1,336.2 square metres (comprising 29 parking lots and 30 percent of the common areas and the service areas) in the proposed underground car park. Registration of Inpromtex in the Register of Immovables, and the corresponding issue of a Certificate of Registration of Rights, evidencing Inpromtex as the owner of 30 percent of the completed development triggers Inpromtex’s obligation to execute the Butikovsky Agreement on Sale of Real Estate and thereby transfer such 30 percent interest to Nospelt. Nospelt would then seek registration of such 30 percent interest in Register of Immovables in order to become the legal owner of 100 percent of the Butikovsky Development. Such registration would be expected to take approximately one to two months from the date of Nospelt’s application for registration. The consideration to be paid by the Group for the acquisition of such 30 percent interest is US\$7,000,000 (plus VAT). This amount is to be paid within 10 business days following registration of the transfer of rights of ownership to Nospelt in the Register of Immovables. The Butikovsky Preliminary Agreement terminates on the earlier of 23 October 2008 and the execution of the Butikovsky Agreement on Sale of Real Estate.

In the event that Inpromtex is not able to acquire the share in the Butikovsky Development held by the Moscow Government, pursuant to the Butikovsky Preliminary Agreement, Inpromtex shall procure registration of its ownership right to its 20 percent interest in the completed office building and 10 percent interest in the underground car park, and transfer such interests to Nospelt pursuant to the Butikovsky Agreement on Sale of Real Estate. In such event, the consideration payable by Nospelt shall be reduced on a pro-rata basis.

The Group’s rights under the Butikovsky Agreement on Share Participation, the Butikovsky Preliminary Agreement and the Butikovsky Agreement on Sale of Real Estate against Inpromtex are all unsecured. Further details on the Butikovsky Agreement on Share Participation, the Butikovsky Preliminary Agreement and the Butikovsky Agreement on Sale of Real Estate are set out in paragraphs 9.1 to 9.3 of Part VII of this document.



In respect of the ongoing construction of the Butikovsky Development, it is intended that the Group will, through sub-contracting arrangements, incur certain expenditure incurred to completion of the Butikovsky Development but will re-charge this to Inpromtex on a cost-plus basis (being payments made to suppliers plus the actual time cost of employees working on the development). No formal agreements are in place in respect of this arrangement.

#### *Current status of the Butikovsky Development*

Inpromtex obtained the Butikovsky Act of Permitted Use from the Moscow Committee on Architecture and Town Planning on 20 September 2005, which permits the construction of an office building and underground car park with a total area of up to 4,710 square metres and up to six floors above ground. The Butikovsky Act of Permitted Use was registered on 12 October 2005 and was valid until 12 October 2006. Ordinarily, an Act of Permitted Use would be approved by a resolution of the Moscow Government approving construction of the relevant development prior to the expiry of that Act of Permitted Use. Such a resolution is ordinarily required before an Act of Permitted Use becomes effective. No such resolution has yet been received in respect of the Butikovsky Development. However, prior to expiry of the Butikovsky Act of Permitted Use, Inpromtex received a construction permit, as described below. Therefore the Directors believe that it is unclear whether Inpromtex still requires either an extension of the Butikovsky Act of Permitted Use or a resolution of the Moscow Government approving such Act of Permitted Use. The Group is considering whether clarification of this matter is required from the relevant authorities.

Although the Butikovsky Act of Permitted Use only permits construction of an area up to 4,710 square metres, the Butikovsky Interdepartmental Conclusion, which was issued on 26 February 2006 in respect of the design documentation for construction of the Butikovsky Development, permits construction of the Butikovsky Development with a total area of 8,929 square metres. It is intended that the Butikovsky Development will be constructed with a gross internal area of 8,929 square metres. It is not clear whether the Butikovsky Interdepartmental Conclusion has the legally binding effect of amending the size of the development approved in the Butikovsky Act of Permitted Use. As the area of the Butikovsky Development may not exceed the parameters specified in the Butikovsky Act of Permitted Use, an amendment to the Butikovsky Act of Permitted Use may be required to permit the intended development size of 8,929 square metres. The Group is considering whether clarification of this matter is required from the relevant authorities. If the Butikovsky Development does not comply with the requirements of the Butikovsky Act of Permitted Use, the Butikovsky Development risks being deemed an unauthorised structure, which may lead to demolition of that part exceeding the maximum area defined in the Butikovsky Act of Permitted Use.

There is currently also uncertainty as to whether changes to the zoning of the Butikovsky Development need to be made. The Conclusion of the Scientific and Research Institute of the General Plan of Moscow dated 14 March 2005 declared that the construction of the Butikovsky Development did not comply with relevant construction zoning and required that Inpromtex obtain town planning substantiation for construction of the Butikovsky Development. Under Russian law, each construction project must be carried out in compliance with applicable zoning and town planning requirements. "Town planning substantiation" is a document required if the intended construction does not comply with applicable zoning and other town planning requirements. However, the Butikovsky Act of Permitted Use subsequently obtained on 20 September 2005 considered the compliance of the Butikovsky Development with applicable town planning requirements and approved its construction, and the Directors believe that it is unclear whether construction of the Butikovsky Development actually contradicts town planning requirements. The Group is considering whether clarification of this matter is required from the relevant authorities. If the Butikovsky Development does not comply with applicable town planning requirements, the Butikovsky Development risks being deemed an unauthorised structure, which may lead to demolition of the Butikovsky Development.

Although the resolution of the Moscow Government approving the Act of Permitted Use is usually received before a construction permit is issued, the Architectural Authority of Moscow has issued Inpromtex with a construction permit dated 5 September 2006. Such construction permit remains in force until 5 September 2009. To date, the foundation of the Butikovsky Development has been dug, retaining walls have been erected and construction of the second floor has commenced. The design documentation for the Butikovsky Development has received approval from the key state authorities.

An amendment agreement to the Butikovsky Investment Contract dated 4 September 2006 formalised the extension of the term of the Butikovsky Investment Contract until 31 December 2006. Following 31 December 2006, the Group will need to apply for an extension of the Butikovsky Investment Contract. Although such extensions are usually granted, there can be no assurance that such an extension will be granted. Inpromtex has informed the Company that it intends apply for such extension.

To facilitate the construction of the Butikovsky Development, on 16 November 2005, Inpromtex entered into the Butikovsky Land Lease. The Butikovsky Land Lease expired on 31 December 2005 but was subsequently extended to 31 December 2006. Although it is not possible to determine whether the term of the extended lease is greater than one year, such agreements with a term of greater than one year require registration with the relevant state authority. In the absence of such required state registration, the additional agreement to extend such lease may not have been validly concluded. Inpromtex is not seeking such registration as the time required to complete such registration is likely to comprise a substantial portion of the remaining term of the lease. As the construction of the Butikovsky Development is not anticipated to be completed until the second quarter of 2007, Inpromtex will need to seek a further extension of the Butikovsky Land Lease. Although the relevant Moscow state authorities are not obliged to extend such lease, it is common practice to grant such an extension in order to enable completion of construction of a development which has already commenced. Further details of the Butikovsky Land Lease are set out in paragraph 9.4 of Part VII of this document.

#### *Key steps required to complete the Butikovsky Development*

On the basis of the construction permit described above, construction has commenced on the site. In addition to seeking clarification in respect of town planning substantiation and the necessity of amending the Butikovsky Act of Permitted Use, extending the Butikovsky Land Lease and the Butikovsky Investment Contract, Inpromtex will need to complete the construction of the Butikovsky Development. Upon completion of construction, Inpromtex will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. Inpromtex and the Moscow Government, as the parties to the Butikovsky Investment Contract, will also need to execute a form of final protocol certificate confirming that all of their respective obligations under the Butikovsky Investment Contract have been fulfilled. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Department of the Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued. If Inpromtex is to acquire the share of the Moscow Government in the development, it will need to pay to the Moscow Government the amount determined by the Moscow Government's appointed valuer for such share.

Upon receipt of the Certificate of Registration of Rights, Inpromtex, together with Nospelt pursuant to the Butikovsky Agreement on Share Participation and the Butikovsky Preliminary Agreement described above, as the registered owners of the Butikovsky Development, will have a right to obtain a long term land lease from the Moscow Government. Such a lease would generally be for a term of 49 years and must be registered with the Department of the Federal Registration Service for Moscow. Although it is intended that, if possible, such long term land lease will be granted solely in the name of Nospelt, this will depend upon the timing of the transfer of 30 percent of the completed Butikovsky Development from Inpromtex to Nospelt. If a long term land lease is to be entered into in respect of the Butikovsky Development in the names of both Inpromtex and Nospelt, it is intended that any lease rights held by Inpromtex will be transferred to Nospelt upon registration of such 30 percent interest in the name of Nospelt.

Under Russian law, if a building located on an inseparable land plot is owned by several owners, such persons are entitled to acquire shared ownership rights or conclude a single lease agreement with several persons acting as joint tenants in respect of the land plot underlying such building.

#### *Post-construction strategy and management of the Butikovsky Development*

The Group currently intends to lease the Butikovsky Development to either a single or multiple tenants under medium or long term lease agreements according to prevailing market conditions. In the right market conditions, the Group may sell all or part of the development.

## **Properties Held for Development**

### *Ostozhenka Development*

#### *Description of the Ostozhenka Development*

The Ostozhenka Development is a proposed residential townhouse, construction of which has not yet commenced. The Ostozhenka Development is expected to be completed in the fourth quarter of 2008.

The Ostozhenka Development is to be located at 37/7 Ostozhenka Street, in the Central Administrative Prefecture of Moscow, at the intersection of Ostozhenka Street and Khilkov Pereulok.

The Ostozhenka Development will comprise five levels, including two underground levels and an attic. The lower underground floor will comprise a car park with four spaces, ancillary and technical facilities, and a home theatre. The upper underground floor will comprise an entrance hall, a swimming pool and a winter garden. A drawing room, a dining room and a study will be located on the first floor, with bedrooms on the second floor. The attic will contain a library and a studio. The gross internal area of the completed townhouse will be approximately 1,379 square metres. The Ostozhenka Development will include a terrace on part of the roof. The Ostozhenka Development is located in a conservation area, which exists to ensure that new buildings blend in with existing structures. The Ostozhenka Development is to be a replica of the existing historic building on the site, which will be demolished. The total land area of the site is discussed further below.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Ostozhenka Development:

- estimated value upon completion: US\$27,580,000 (excluding VAT); and
- estimated market value in its existing state: US\$13,246,000 (excluding VAT).

Such valuation estimates are based on a 100 percent ownership interest in the development. Following completion of construction, on the assumption that the Group will not be required to enter into an investment contract in respect of any additional land that may be required in relation to the Ostozhenka Development, the Group will hold 100 percent of the Ostozhenka Development. The development is in the early stages of design, and has not been pre-sold.

#### *Acquisition of the Ostozhenka Development by the Group*

The Ostozhenka Building, a historic building currently on the site, was previously owned by Inpromtex and an individual, both being controlled by, or connected to, Boris Kuzinez. Ostozhie subsequently acquired the Ostozhenka Building following a contribution to the charter capital of Ostozhie by Inpromtex and such individual in December 2005. Such contribution was effected by a revised charter of Ostozhie, approved on 14 November 2005, and an Act of Transfer and Acceptance dated 30 November 2005. The Certificate of Registration of Rights was issued by the Administration of the Federal Registration Service for Moscow on 27 December 2005. As a result, Ostozhie became the registered owner of the Ostozhenka Building. At the time of the capital contribution, Ostozhie did not form part of the Group.

There is a risk that the payment of the charter capital of Ostozhie was effected in a manner inconsistent with Russian law. The contribution to Ostozhie's charter capital required to be made was (i) 228,900 Roubles (approximately US\$8,500) in cash (five percent of the total charter capital) by an individual connected to Boris Kuzinez and (ii) the Ostozhenka Building by Inpromtex in the amount of 4,578,000 Roubles (approximately US\$169,000). The Ostozhenka Building had a real appraised monetary value of 964,500 Roubles (approximately US\$35,600). However, the corporate documentation effecting the contribution to Ostozhie's capital indicated that the valuation of the Ostozhenka Building was itself 4,578,000 Roubles, and did not indicate that lease rights to a land plot within the footprint of the Ostozhenka Building, with an appraised monetary value of 3,613,500 Roubles (approximately US\$133,400) were formally contributed towards payment of Ostozhie's charter capital, but that only the Ostozhenka Building itself was contributed towards such charter capital. Therefore, there is a risk that, as the nominal value of Inpromtex's contribution was stated to exceed the appraised monetary value of the Ostozhenka Building as estimated by the independent valuation agent, Ostozhie may be liquidated. This risk is mitigated by the fact that an acquirer of an ownership right to a building acquires the same rights to a land plot where the building is located as the previous owner of the building. Therefore, Ostozhie, through the acquisition of the Ostozhenka Building, automatically acquired lease rights to the land plot under the Ostozhenka Building by virtue of law. Further, the Group has obtained clarification from the relevant

valuation agent in respect of the original capital contribution. The valuation agent's clarification states that as the land lease rights follow the ownership of the Ostozhenka Building as a matter of Russian law, and for valuation purposes, the contribution of the Ostozhenka Building to Ostozhie's charter capital equates to the concurrent contribution of the lease rights. However, there can be no assurance that the valuation agent's report is sufficient evidence to eliminate the risks described above.

Subsequently, in connection with the formation of the Group, pursuant to the First Ostozhie Share Purchase Agreement and the Second Ostozhie Share Purchase Agreement, each dated 15 June 2006 (as amended and restated on 10 August 2006), Lemoriano Holdings Limited ("Lemoriano Holdings"), a wholly-owned subsidiary of the Group, acquired 100 percent of the issued share capital of Ostozhie from Inpromtex and an individual, both being controlled by, or connected to, Boris Kuzinez. The aggregate consideration payable by the Group of US\$1,550,000 (with US\$1,472,500 payable to Inpromtex and US\$77,500 payable to such individual) is to be paid by the earlier of Admission and 31 March 2007. Further details of the First Ostozhie Share Purchase Agreement and the Second Ostozhie Share Purchase Agreement are set out in paragraph 9.7 of Part VII of this document.

#### *Current status of the Ostozhenka Development*

The Ostozhenka Development is at a very early stage. All of the Pre-Construction Phase Documentation is yet to be prepared and submitted to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot.

The Ostozhenka Building was the subject of a number of short term leases, the last of which expired on 30 November 2006. In due course, the Group intends to demolish the Ostozhenka Building in order to commence construction of the Ostozhenka Development, although no approval from the Moscow Government for such demolition has yet been sought.

The Group is currently in the process of formalising its rights in respect of the 2001 Ostozhenka Land Lease, being the lease relating to the land underlying the Ostozhenka Building. The 2001 Ostozhenka Land Lease was entered into by Inpromtex with the Moscow Government on 11 October 2001 and was subsequently registered with the Department of the Federal Registration Service for Moscow. This land lease is due to expire on 19 October 2025. The land plot in respect of this lease was allocated to Inpromtex as the owner of the Ostozhenka Building. Upon Ostozhie's acquisition of the Ostozhenka Building from Inpromtex in 2005, Ostozhie also acquired Inpromtex's rights under the 2001 Ostozhenka Land Lease by operation of law. An amendment to the 2001 Ostozhenka Land Lease formalising Ostozhie's rights under this lease is in the process of execution and registration with the relevant state authorities.

The 2006 Ostozhenka Land Lease was entered into by Inpromtex with the Department of Land Resources of Moscow on 31 March 2006. This land lease is due to expire on 4 July 2010. This lease relates to land comprising the gardens of the existing Ostozhenka Building and comprises two land plots.

The Ostozhenka Development remains at a concept design stage, and the physical land area to be covered by the development has not yet been conclusively determined. As such, the Directors have not yet established whether it is necessary to transfer the 2006 Ostozhenka Land Lease to the Group in order to construct the Ostozhenka Development. Following Admission, the Group will have no formal right to require Inpromtex to transfer the land relating to the 2006 Ostozhenka Land Lease to the Group and as at the date of this document, the Group has no rights in respect of the land plots relating to the 2006 Ostozhenka Land Lease. Furthermore, as Inpromtex is yet to register the 2006 Ostozhenka Land Lease with the Department of the Federal Registration Service for Moscow, such lease may be considered by a court as not yet having been entered into and therefore as being unenforceable.

In the event that the Group requires land, in addition to the 2001 Ostozhenka Land Lease, to construct the Ostozhenka Development (and whether such land is an alternative, or in addition, to the 2006 Ostozhenka Land Lease), the Group will need to obtain the grant of a lease for such additional land plot. Should the Moscow Government require the Group to enter an investment contract in respect of such land, the Moscow Government may require an ownership share in the completed Ostozhenka Development. There can be no assurance that the Moscow Government will grant any such additional land plot.

The 2001 Ostozhenka Land Lease and, to the extent relevant, the 2006 Ostozhenka Land Lease contain a requirement that the lessee use the relevant land plot in accordance with the purpose specified in the relevant lease. Neither such lease currently provides for the possibility of carrying out construction on the relevant land plots. The purpose of use of land under such leases can be changed by virtue of a resolution of a competent authority of the City of Moscow. It is likely that construction of the Ostozhenka



Development will require such a resolution and, if so, the Group will need to obtain such a resolution. Whether such a resolution will be forthcoming in relation to the relevant lease will depend on the circumstances applicable to each land plot, and there can be no assurance that the Group will be able to obtain such resolutions.

The Ostozhenka Cadastre Certificate dated 17 July 2006 defines the zoning of the district where construction of the Ostozhenka Development will be carried out. Pursuant to the Ostozhenka Cadastre Certificate, the Ostozhenka Development is located in an “administrative and business functional” zone. Such construction zoning is defined as “low-density, predominantly of one to two floors” and the landscape zoning as “accomplished and developed”. Construction of the Ostozhenka Development will be required to comply with these zoning requirements. City of Moscow legislation does not define exactly which kind of buildings may be constructed within an area with the above zoning. Based on the Ostozhenka Cadastre Certificate, it is unclear whether this zoning will permit construction of the Ostozhenka Development, which is intended to be solely a residential development. When the Group seeks to obtain an Act of Permitted Use of Land Plot, such document may clarify whether such construction is permitted, and there is a possibility that construction of the Ostozhenka Development may not be permitted. The Directors believe that the relevant zoning categories are not specifically defined and flexibility exists for the relevant authorities to amend the zoning requirements, if required.

#### *Key steps required to complete the Ostozhenka Development*

In addition to the need to finalise the registration process in respect of the 2001 Ostozhenka Land Lease and obtain lease rights in respect of any additional land plot that may be required in respect of the Ostozhenka Development, the Group will need to obtain an amendment to the permitted land use under each of the 2001 Ostozhenka Land Lease and, if relevant, the 2006 Ostozhenka Land Lease. Further, as well as seeking clarification regarding zoning, an approval of the Moscow Government for the demolition of the existing building at the site will be required. Once all of the Pre-Construction Phase Documentation is prepared and submitted to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot, the Act of Permitted Use of Land Plot will then need to be approved by a resolution of the Moscow Government. Once such resolution is issued, the Group must then prepare the design documentation (which must be approved in compliance with applicable law) and obtain a construction permit from the Architectural Authority of Moscow before commencing construction.

Once a construction permit has been obtained, construction may commence. Upon completion of construction, the Group will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Department of the Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued.

Upon receipt of the Certificate of Registration of Rights, Ostozhie, as the registered owner of the building, will, to the extent not already held, have a right to obtain a long term land lease from the Moscow Government. Such a lease would generally be for a term of 49 years and must be registered with the Department of the Federal Registration Service for Moscow.

#### *Post-construction strategy and management of the Ostozhenka Development*

The Group currently intends to sell the Ostozhenka Development as and when completed.

#### *Tsvetnoy Development*

##### *Description of the Tsvetnoy Development*

The Tsvetnoy Development is a proposed primarily retail development, construction of which has not yet commenced. The Tsvetnoy Development is expected to be completed in the third quarter of 2008.

The Tsvetnoy Development is to be located at 15 Tsvetnoy Boulevard, between two of Moscow’s famous “ring roads”, Bul’varnoe and the Garden Ring Road. The metro station “Tsvetnoy Boulevard” is located within a one-minute walk from the site. The development is proposed to be used primarily as a shopping centre and is expected to include a gourmet food court.

The Tsvetnoy Development will comprise 11 levels, including four underground levels. The four underground levels will be used for parking vehicles. The gross internal area of the completed complex will



be approximately 38,653 square metres, including six floors of retail space of approximately 14,074 square metres, one floor of office space of approximately 726 square metres, and four underground levels of parking of approximately 14,327 square metres. The remaining space (approximately 9,526 square metres) will consist of common areas and ancillary and maintenance areas.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Tsvetnoy Development:

- estimated value upon completion: US\$185,575,000 (excluding VAT);
- estimated market value in its existing state: US\$64,580,000 (excluding VAT); and
- estimated market rental value upon completion: US\$17,185,000 per annum (excluding VAT and service charges, and assuming full occupation).

Such valuation estimates are based on a 100 percent ownership interest in the development. Following completion of construction, the Group will hold 100 percent of the Tsvetnoy Development. As further described below under the heading “Post-construction strategy and management of the Tsvetnoy Development”, a letter of intent has been signed regarding a potential letting of approximately 15,000 square metres plus parking space within the Tsvetnoy Development.

#### *Acquisition of the Tsvetnoy Development by the Group*

The dilapidated Tsvetnoy Building currently on the site of the proposed Tsvetnoy Development was previously owned by LLC Stolichnye Gastronomy (“Stolichnye Gastronomy”), which is not connected to Boris Kuzinez or the Group. Central Market, which at the time was wholly owned by Stolichnye Gastronomy, subsequently acquired the Tsvetnoy Building from Stolichnye Gastronomy pursuant to the Tsvetnoy Building Share Purchase Agreement dated 20 July 2004. Central Market’s ownership right to the Tsvetnoy Building was registered in the Register of Immovables on 5 August 2004. Upon acquisition of the Tsvetnoy Building, Central Market acquired all of Stolichnye Gastronomy’s rights to the Tsvetnoy Initial Land Plot (under the Tsvetnoy Land Lease) by operation of law. Subsequently, all rights and obligations under the Tsvetnoy Land Lease were formally transferred from Stolichnye Gastronomy to Central Market on 8 September 2004 pursuant to the Tsvetnoy Land Lease Addendum. The Tsvetnoy Land Lease is due to expire on 4 June 2051. Further details of the Tsvetnoy Building Share Purchase Agreement and the Tsvetnoy Land Lease are set out in paragraph 9.13 of Part VII of this document.

Subsequently, pursuant to the Central Market Share Purchase Agreement dated 29 December 2004, Ling Investments acquired 100 percent of the charter capital in Central Market from Stolichnye Gastronomy. At such time Ling Investments was not part of the Group, and was 99.98 percent owned by Hinter View Limited (“Hinter View”), a third party unconnected to the Group. The purchase price was 1,000,000 Roubles (approximately US\$37,000), which was paid on 1 February 2005. The transfer of Central Market’s charter capital was completed on 30 December 2004 and relevant amendments to Central Market’s charter reflecting the sale were registered on 31 January 2005. Further details of the Central Market Share Purchase Agreement are set out in paragraph 9.12 of Part VII of this document. On 25 March 2005, Hinter View transferred approximately 60 percent of the issued share capital of Ling Investments to Denhurst View Limited (“Denhurst View”), an entity indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez, for a consideration of approximately US\$1,700,000.

Subsequently, in connection with the formation of the Group, in 2006, the Group acquired, in two separate transactions 100 percent of Ling Investments from an entity controlled by Boris Kuzinez and from an unrelated third party, and thereby obtained rights to the proposed Tsvetnoy Development.

#### *Current status of the Tsvetnoy Development*

The Moscow Government approved the demolition of the Tsvetnoy Building by Resolution No. 1913-RP dated 28 September 2004 and the Permission of the Moscow Committee on Cultural Inheritance No. 16-06-13/657 dated 14 November 2005. Demolition of the Tsvetnoy Building occurred in October 2006. As at the date of this document, construction of the Tsvetnoy Development has not yet commenced. Construction of the Tsvetnoy Development is to be carried out on the basis of Resolution No. 1913-RP and the Tsvetnoy Act of Permitted Use, which was obtained by Central Market from the Moscow Committee on Architecture and Town Planning on 16 December 2005. The Tsvetnoy Act of Permitted Use was approved by the Moscow Government pursuant to Resolution No. 2096-RP on 16 October 2006. The preliminary design suggestions in respect of the Tsvetnoy Development have been approved.

There is currently uncertainty as to whether changes to the zoning of the Tsvetnoy Development need to be made. Resolution No. 1913-RP requires Central Market to obtain town planning substantiation for construction of the Tsvetnoy Development. To date, such town planning substantiation has not been obtained. However, the Tsvetnoy Act of Permitted Use and the Conclusion on the Compliance of the Intended Construction with Town Planning Requirements No. 114 dated 17 August 2005 issued by the Moscow Committee on Architecture and Town Planning both considered the Tsvetnoy Development's compliance with applicable town planning requirements and approved its construction. Therefore, the Directors believe that it is unclear whether the construction of the Tsvetnoy Development actually contradicts town planning requirements. The Directors believe that Central Market may be required to obtain town planning substantiation to ensure that the Tsvetnoy Development complies with the appropriate construction zoning. Theoretically, the absence of town planning substantiation may result in the proposed structure being deemed to be an unauthorised construction, potentially leading to its demolition pursuant to a court order. The Group is considering whether clarification of this matter is required from the relevant authorities.

The Tsvetnoy Act of Permitted Use permits the construction of a shopping centre complex with a total area of 32,587 square metres (16,724 square metres above ground and 15,863 square metres below ground) comprising up to six floors above ground and 316 parking spaces. As the area of the Tsvetnoy Development may not exceed the parameters specified in the Tsvetnoy Act of Permitted Use, an amendment to the Tsvetnoy Act of Permitted Use may be required to permit the intended development size of 38,653 square metres. An amendment may also be required to permit construction of up to seven floors above ground. The Group is considering whether clarification of this matter is required from the relevant authorities. The Tsvetnoy Act of Permitted Use was registered on 16 December 2005. As the Tsvetnoy Act of Permitted Use was approved by the Moscow Government pursuant to Resolution No. 2096-RP on 16 October 2006, no extension of the Tsvetnoy Act of Permitted Use is required.

The Tsvetnoy Act of Permitted Use permits new construction to be carried out on a land plot with a total area of 5,610 square metres. However, the Tsvetnoy Land Lease only covers an area of 3,755 square metres (the Tsvetnoy Initial Land Plot). Consequently, Central Market entered negotiations with the Moscow Government to acquire rights to an adjacent land plot (the Tsvetnoy Additional Land Plot). Pursuant to Extract from Resolution No. 6 dated 2 March 2006, Central Market was granted a right to enter into a short term lease in respect of the Tsvetnoy Additional Land Plot for an area of 2,245 square metres for the purpose of facilitating construction of the Tsvetnoy Development. The Group is in the process of formalising a lease agreement with respect to the Tsvetnoy Additional Land Plot, but such lease agreement has not yet been entered into. Such lease agreement will require additional payments to be made by Central Market in respect of the Tsvetnoy Additional Land Plot. The term of such lease is to be for six months. Following the expiry of such six-month period, the Group will need to apply for an extension of such lease. Although such extensions are usually granted, there can be no assurance that such an extension will be granted.

Pursuant to Resolution No. 2096-RP dated 16 October 2006, Central Market will enter into an investment contract in respect of the Tsvetnoy Development. Although not expressly stated in Resolution No. 2096-RP, it appears that such investment contract contemplated by Resolution No. 2096-RP only relates to the Tsvetnoy Additional Land Plot. In respect of such investment contract, the Moscow Government would ordinarily be expected to acquire an ownership interest in that part of the Tsvetnoy Development to which the Tsvetnoy Additional Land Plot relates, once completed. However, pursuant to Resolution No. 2096-RP, Central Market will be entitled to ownership of 100 percent of the entire completed Tsvetnoy Development provided that in respect of the Tsvetnoy Additional Land Plot, Central Market pays compensation to the Moscow Government for the use of certain city infrastructure, such as engineering and transport infrastructure, in the amount of US\$6,896,025. Pursuant to Resolution No. 3-RP dated 12 January 2006, Central Market will be required to obtain a bank guarantee in favour of the Moscow Government. If required with respect to the Tsvetnoy Additional Land Plot, the amount of such bank guarantee would be likely to be specified in the relevant investment contract, once prepared.

Central Market has entered into a development agreement dated 1 December 2005 between Central Market and Project Bureau, pursuant to which Project Bureau shall act as construction "customer-developer" to effect the demolition of the Tsvetnoy Building and the construction of the Tsvetnoy Development. Project Bureau's licence for carrying out such activities is effective until 14 November 2010.

### *Key steps required to complete the Tsvetnoy Development*

In addition to seeking clarification in respect of town planning substantiation, entering into an investment contract in respect of the Tsvetnoy Additional Land Plot and entering into the short term land lease in respect of the Tsvetnoy Additional Land Plot, Central Market will need to prepare the design documentation which must be approved by the relevant state authorities in compliance with applicable law (and which must not exceed the parameters defined in the Tsvetnoy Act of Permitted Use (as may be amended)) and apply for a construction permit from the Architectural Authority of Moscow before commencing construction on the site. In due course, Central Market will need to apply for an extension of the short term land lease in respect of the Tsvetnoy Additional Land Plot.

Once construction has been completed, Central Market will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. The investment contract intended to be entered into (in respect of the Tsvetnoy Additional Land Plot) will require the parties thereto to execute a form of final protocol certificate confirming that all of their respective obligations under the investment contract have been fulfilled. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Department of the Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued.

Upon receipt of the Certificate of Registration of Rights, Central Market, as the registered owner of the Tsvetnoy Development, will have the right to obtain a long term land lease from the Moscow Government in respect of the Tsvetnoy Additional Land Plot. Such a lease would generally be for a term of 49 years and must be registered with the Department of the Federal Registration Service for Moscow.

### *Post-construction strategy and management of the Tsvetnoy Development*

The Group has entered into a letter of intent dated 14 September 2006, pursuant to which a Swedish company has indicated that it wishes to lease the Tsvetnoy Development, expressed therein to consist of approximately 15,000 square metres plus parking space, for a term of 20 years with an option for a further 10-year extension. For the first 24-month period, such lessee would pay a rental amount based on 10 percent of turnover, and thereafter, a rental amount based on ten percent of turnover, with a guaranteed rental of US\$65 per square metre. Income and expenses relating to operation of the car parking facilities would be divided equally. Such letter of intent remains subject to internal approvals of each party and agreement of appropriate documentation.

### *Zemlianoy Development*

#### *Description of the Zemlianoy Development*

The Zemlianoy Development is a proposed primarily office development, construction of which has not yet commenced. The Zemlianoy Development is being developed under a co-investment contract with DIPS and is expected to be completed in the fourth quarter of 2008.

The Zemlianoy Development is to be located at 70/1 Zemlianoy Val Street, in the Tagansky District. The Zemlianoy Development is adjacent to the Taganka Development, and is within 250 metres of the “Taganskaya” metro station.

The Zemlianoy Development will comprise 12 levels, including three underground levels. The three underground levels will be used for parking. The gross internal area of the completed building will be approximately 10,491 square metres, including retail space of approximately 500 square metres, office space of approximately 7,106 square metres and parking space of approximately 2,688 square metres. The remaining space (approximately 217 square metres) will consist of common areas and ancillary and maintenance areas. The total land area of the site has not currently been finalised.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Zemlianoy Development:

- estimated value upon completion: US\$67,190,000 (excluding VAT);
- estimated market value in its existing state: US\$20,762,000 (excluding VAT); and
- estimated market rental value upon completion: US\$6,547,900 per annum (excluding VAT and service charges, and assuming full occupation).

Such valuation estimates are based on a 100 percent ownership interest in the development. As described below, following completion of construction, it is intended that the Group will hold 100 percent of the Zemliano Development. Although the Group currently holds rights in respect of 95 percent of the development following completion, for valuation purposes, the Industry Consultant's estimates have taken into account the estimated payments required to be made for the acquisition of the share held by the Moscow Government.

The development is in the early stages of design, and no pre-lettings have been made.

#### *Acquisition of the Zemliano Development by the Group*

The Zemliano Development was originally acquired by parties indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez prior to the formation of the Group. On 22 December 2005, Dinas, a company which at the time was controlled by Boris Kuzinez, entered into the Zemliano Co-Investment Contract with DIPS in respect of the Zemliano Development. Under the Zemliano Co-Investment Contract, Dinas agreed to provide financing in an amount of 226,119,380 Roubles (approximately US\$8,350,000) for the construction of the Zemliano Development (and compensate DIPS for certain other costs incurred by DIPS relating to the Zemliano Development prior to entering into the Zemliano Co-Investment Contract) in return for a 95 percent interest (representing approximately 7,190 square metres and 40 parking spaces) in the development following completion. Under the terms of the Zemliano Co-Investment Contract, Dinas, as a financial investor in the development, does not have any direct rights to influence or control the design and construction of the development. In practice, however, Dinas will manage the construction process subject to DIPS's overriding authority. Under certain conditions, Dinas may refuse to fund any works beyond the scope of work specified in the Zemliano Co-investment Contract.

DIPS is entitled to retain the remaining five percent interest (being approximately 378.4 square metres and two parking spaces) in the development following completion. The Department of Property of the City of Moscow, a City of Moscow authority, is entitled to approximately 37.6 square metres of the completed development (equivalent to the area that was owned by the Moscow Government in the existing building on the site—the Zemliano Building—before its recognition as being dangerous for use). DIPS is responsible for obtaining all of the necessary Pre-Construction Phase Documentation and approvals in relation to the Zemliano Development and, under the terms of the Zemliano Co-Investment Contract, retains control over the development's design and construction. A supplementary agreement which would give Dinas greater control over the preparation of documentation relating to the Zemliano Development is currently being negotiated with DIPS. There can be no assurance that DIPS will agree to any such agreement.

Subsequently, pursuant to the First Dinas Share Purchase Agreement dated 10 March 2006 (as amended and restated on 8 May 2006), Canalet Holding Limited ("Canalet Holding") acquired 99 percent of the charter capital of Dinas from an individual connected to Boris Kuzinez. At such time, Canalet Holding was not part of the Group. The consideration payable of 60,000 Roubles (approximately US\$2,200) was paid on 25 October 2006.

In connection with the formation of the Group, pursuant to the Canalet Holding Share Purchase Agreement dated 6 June 2006, Toucho Investments acquired 99 percent of the issued share capital of Canalet Holding and Teruel Investments Limited ("Teruel Investments") acquiring one percent of such shares, in each case, from Whyre Holdings Limited ("Whyre Holdings"), an entity indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. Through this acquisition, the Group acquired Canalet Holding's rights to the proposed Zemliano Development. The aggregate consideration payable of US\$1,200,000 was paid on 2 November 2006.

Subsequently, pursuant to the Second Dinas Share Purchase Agreement dated 29 June 2006 (as amended and restated on 25 August 2006), Canalet Holding acquired the remaining one percent of the charter capital of Dinas from another individual connected to Boris Kuzinez. The consideration payable of 700 Roubles (approximately US\$26) was paid on 25 October 2006.

Further details of the above share purchase agreements are set out in paragraph 9.16 and 9.17 of Part VII of this document.



### *Current status of the Zemlianoy Development*

The Zemlianoy Development is at an early stage. The Group understands that DIPS has prepared and submitted the Pre-Construction Phase Documentation to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot.

The Zemlianoy Development will be constructed on the site currently occupied by the Zemlianoy Building. The Moscow Government approved the demolition of the Zemlianoy Building in October 2002 pursuant to Resolution No. 870-PP. Under Resolution No. 870-PP, the Zemlianoy Building was considered by the Moscow Government to be dangerous for use, and the Moscow Government agreed to transfer the Zemlianoy Building with the underlying land plot (the “Zemlianoy Land Plot”) to DIPS to procure the demolition of the Zemlianoy Building and to construct the Zemlianoy Development in its place. As DIPS effectively acts on behalf of the Moscow Government, no formal land lease has been entered into in respect of the Zemlianoy Land Plot. As at the date of this document, the Zemlianoy Building has not yet been demolished, and construction of the Zemlianoy Development has not yet commenced. Demolition of the Zemlianoy Building is expected to occur following relocation of the existing tenants, which is the responsibility of DIPS. Such relocation is expected to be completed by the end of December 2006. Construction of the Zemlianoy Development will be carried out on the basis of the Zemlianoy Co-Investment Contract.

Although no contractual right to do so exists in the Zemlianoy Co-Investment Contract, it is the Group’s intention that Dinas will acquire both the five percent interest held by DIPS and the interest in respect of 37.6 square metres held by the Department of Property of the City of Moscow upon completion of the Zemlianoy Development. Preliminary discussions have been held with DIPS in respect of the acquisition of the interests held by DIPS and the Department of Property of the City of Moscow.

The Zemlianoy Co-Investment Contract anticipates construction of an administrative non-residential building with a total area of 9,480 square metres. The Group intends that the Zemlianoy Development will have a gross internal area of 10,491 square metres. As such, in order to ensure that the Zemlianoy Development complies with the relevant contractual documentation, the Group and DIPS will need to agree to amend the Zemlianoy Co-Investment Contract. Although such amendments are usually agreed to by City of Moscow authorities, there can be no assurance that DIPS will agree to such an amendment.

### *Key steps required to complete the Zemlianoy Development*

In addition to obtaining an amendment to the Zemlianoy Co-Investment Contract as described above, following the Moscow Committee on Architecture and Town Planning granting the required Act of Permitted Use of Land Plot, such Act of Permitted Use of Land Plot will need to be approved by a resolution of the Moscow Government. Once such resolution is issued, DIPS must then prepare the design documentation (which must be approved in compliance with the applicable law) and obtain a construction permit from the Architectural Authority of Moscow before commencing construction.

Once a construction permit has been obtained, construction may commence. Upon completion of construction, DIPS will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. The parties to the Zemlianoy Co-Investment Contract will also need to execute a form of final protocol certificate confirming that all of their respective obligations under the Zemlianoy Co-Investment Contract have been fulfilled. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Department of the Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued. If Dinas is to acquire the shares of DIPS and the Department of Property of the City of Moscow in the development, it will need to pay to each party the amounts determined by the Moscow Government’s appointed valuer for their respective shares.

Upon receipt of the Certificate of Registration of Rights, Dinas will have the right to obtain a long term land lease from the Moscow Government in respect of the Zemlianoy Land Plot. Such a lease would generally be for a term of 49 years and must be registered with the Department of the Federal Registration Service for Moscow. If Dinas is not able to acquire the shares of DIPS and the Department of Property of the City of Moscow, prior to completion of the ownership registration process in respect of the Zemlianoy Development, such long term land lease would be entered into in the names of Dinas, DIPS and the Department of Property of the City of Moscow.



### *Post-construction strategy and management of the Zemliano Development*

The Group currently intends to lease the Zemliano Development to either a single or multiple tenants under medium or long term lease agreements according to prevailing market conditions. In the right market conditions, the Group may sell all or part of the development.

### *Khilkov Development*

#### *Description of the Khilkov Development*

The Khilkov Development is a proposed primarily residential development, construction of which has not yet commenced. The Khilkov Development is expected to be completed in the second quarter of 2009.

The Khilkov Development is to be located at 3 Khilkov Lane, which is one of the prime residential locations in Moscow. The Khilkov Development is to be located near to three main tourist attractions in Moscow. It is approximately 850 metres from the Cathedral of Christ the Saviour, approximately 1,000 metres from Gorky Park and approximately 1,500 metres from the Kremlin. Currently, the site comprises a small park, sports ground and an existing old building which will be demolished as part of the redevelopment. Khilkov Lane is a crossroad to Ostozhenka, regarded as the most famous residential street in Moscow. The site upon which the Khilkov Development will be constructed is surrounded by a school that is currently being built, a residential building currently under construction and a newly constructed business centre.

The number of levels and car parking spaces in respect of the Khilkov Development are as yet undetermined, as the development remains in its concept stage. The gross internal area of the completed Khilkov Development is expected to be approximately 32,000 square metres, including office space of approximately 500 square metres, residential space of approximately 14,500 square metres and parking space of approximately 8,000 square metres (approximately 250 parking spaces). The remaining space (approximately 9,000 square metres) is expected to consist of common areas and ancillary and maintenance areas. The total land area of the site has not currently been finalised.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Khilkov Development:

- estimated value upon completion: US\$325,000,000 (excluding VAT); and
- estimated market value in its existing state: US\$156,818,000 (excluding VAT).

Although an investment contract is to be entered into in respect of the Khilkov Development, as described further below, Lafar Management will be entitled to become registered as the owner of 100 percent of the development, following completion. However, as described below, as the Group currently holds 25 percent of the issued share capital of Lafar Management (with rights to increase this to 50 percent), the value of the Khilkov Group currently attributable to the Group will be reduced proportionately. The development is in the early stages of design, and no pre-lettings or pre-sales have been made.

#### *Acquisition of the Khilkov Development by the Group*

The rights of Stolichnoe Podvorie in respect of the construction of the Khilkov Development are established on the basis of Resolution No. 837-RP, dated 19 May 2006. This resolution entitles Stolichnoe Podvorie to carry out construction of the Khilkov Development between 2006 and 2010 (which is generally understood in the Moscow real estate market to mean the end of 2010). At such time, Stolichnoe Podvorie was not part of the Group and was not connected to either the Group or to Boris Kuzinez. Resolution No. 837-RP also provided that Stolichnoe Podvorie would be granted lease rights in respect of the Khilkov Land Plot as compensation for land previously withdrawn from its possession by City of Moscow authorities. It is intended that the Khilkov Development will be constructed upon this land plot, which is the site of the existing Khilkov Building.

Subsequently, pursuant to the Stolichnoe Podvorie Share Purchase Agreement dated 20 July 2006, Lafar Management acquired 100 percent of the charter capital of Stolichnoe Podvorie from an individual unconnected to Boris Kuzinez. At such time, Lafar Management was owned by Litonor Financial, a third party unconnected to the Group. The aggregate consideration payable by Lafar Management for such acquisition of US\$4,892,960 was paid on 28 September 2006. Further details of the Stolichnoe Podvorie Share Purchase Agreement are set out in paragraph 9 of Part VII of this document.

Subsequently, in connection with the formation of the Group, pursuant to the Lafar Management Share Purchase Agreement dated 19 September 2006, the Group obtained a contractual right to acquire, in stages, 50 percent of the issued share capital of Lafar Management from Litonor Financial. At the date of this document, the Group holds 25 percent of the issued share capital of Lafar Management and consequently a 25 percent interest in the Khilkov Development. The remaining issued share capital of Lafar Management is held by Litonor Financial. The total consideration to be paid by the Group for such acquisition is US\$24,822,480. Of such amount, US\$2,422,480 was paid on 28 September 2006, a further US\$2,400,000 is payable before 15 December 2006, and the remaining US\$20,000,000 is payable at a date to be agreed. Transfer of a further 12.5 percent of the issued share capital is to be made when aggregate payments reach US\$14,100,000 and the remaining 12.5 percent of the issued share capital is to occur once the aggregate payments made by Toucho Investments to Litonor Financial are greater than or equal to US\$19,500,000. For accounting purposes, under current arrangements, it is likely that Lafar Management will not be consolidated as part of the Group. Further details of the Lafar Management Share Purchase Agreement are set out in paragraph 9 of Part VII of this document.

In conjunction with the acquisition of the Group's stake in the Khilkov Development, on 19 September 2006 the Group also entered into the Lafar Management Partnership Agreement with Litonor Financial. Pursuant to the Lafar Management Partnership Agreement, each of Litonor Financial and Toucho Investments have entered into loan agreements with Lafar Management, in each case dated 20 September 2006, pursuant to which each of Litonor Financial and Toucho Investments has, on 28 September 2006, advanced the sum of US\$2,446,480 to Lafar Management. Such loans facilitated Lafar Management's payment of its obligations pursuant to the Stolichnoe Podvorie Share Purchase Agreement. Effective from the date of the Lafar Management Partnership Agreement, Litonor Financial and Toucho Investments share equally the financing obligations and profit earned from development projects undertaken by Lafar Management. Decisions affecting Lafar Management are to be taken jointly, save for matters designated to a jointly-appointed manager. Both Toucho Investments and Litonor Financial are entitled to appoint and remove one director of Lafar Management. Further details of the Lafar Management Partnership Agreement are set out in paragraph 9.20 of Part VII of this document.

Appended to the Lafar Management Partnership Agreement is a management agreement dated 19 September 2006 between Litonor Financial and Toucho Investments which details the responsibilities of such parties specifically in respect of construction of the Khilkov Development. Pursuant to this management agreement, Toucho Investments is appointed as manager of the project. Litonor Financial and Toucho Investments have agreed that Lafar Management and Nospelt shall enter into a co-investment contract pursuant to which Lafar Management and Nospelt shall seek to sell the completed Khilkov Development to third parties. Nospelt would be entitled to 20 percent of any profit of such co-investment contract. Pursuant to this management agreement, construction of the Khilkov Development is to be financed by third parties. However, to the extent it has not been financed by third parties, Litonor Financial and Toucho Investments have agreed to finance construction up to an amount of US\$20,000,000 each (and in the case of Toucho Investments, such contribution shall be subject to Litonor Financial having previously made its contribution), and in equal amounts thereafter if third party financing remains unavailable. Any profit generated by the sale and/or leasing of the completed Khilkov Development would be apportioned 40 percent to Litonor Financial and 60 percent to Toucho Investments (which proportion includes the profit to be distributed to Nospelt pursuant to the co-investment contract described above). It is intended that an amendment agreement to such management agreement be entered into pursuant to which Lafar Management would be replaced by Stolichnoe Podvorie, and Nospelt would be replaced by an entity yet to be specified (but 100 percent owned by the Group). Further details of this management agreement are set out in paragraph 9.20 of Part VII of this document.

#### *Current status of the Khilkov Development*

The Khilkov Development is at a very early stage. On the basis of Resolution No. 837-RP, the Group expects that Stolichnoe Podvorie will enter into an investment contract with the Moscow Government in respect of the Khilkov Development. On the basis of such investment contract, the Moscow Government would ordinarily be expected to acquire an ownership interest in the Khilkov Development, once completed. However, Resolution No. 837-RP provides that Stolichnoe Podvorie will be entitled to ownership of 100 percent of the Khilkov Development following completion provided that Stolichnoe Podvorie pays certain (as yet unspecified) compensation to the Moscow Government for the use of certain city infrastructure, such as public utilities. As at the date of this document, no investment contract has been entered into, although a draft investment contract has been submitted for the consideration of the Moscow

Government. Pursuant to Resolution No. 3-RP dated 12 January 2006, the investment contract will require Stolichnoe Podvorie to obtain a bank guarantee in favour of the Moscow Government. The amount of the bank guarantee will be of an amount of up to 30 percent of the expected investment required for the Khilkov Development, although if the Khilkov Development is determined to be a “multifunctional complex”, this amount may increase. Following the entry into an investment contract, it is expected that the Group would be granted short term lease rights over the Khilkov Land Plot in order to develop the Khilkov Development.

Resolution No. 837-RP provides the basis for Stolichnoe Podvorie to conclude an investment contract in respect of the Khilkov Development, and to consequently obtain a short term land lease for the Khilkov Land Plot. This resolution also provides the basis for the demolition of the existing Khilkov Building. Prior to any such demolition, Resolution No. 837-RP requires Stolichnoe Podvorie to relocate the existing residents of the Khilkov Building at the expense of Stolichnoe Podvorie. As at 15 November 2006, Stolichnoe Podvorie had acquired ownership of 12 flats in the Khilkov Building by relocating the existing residents. The Khilkov Building is currently operated by a partnership of residential owners and contains premises owned by individuals.

The Group understands that a claim has been filed by the FAS against the Moscow Government, alleging that the grant of the Khilkov Land Plot to Stolichnoe Podvoriye breached the law of the Russian Federation “On Competition and Restriction of Monopoly Activities in Commodity Markets”. Neither Stolichnoe Podvorie nor any other member of the Group is a party to such claim.

Stolichnoe Podvorie understands that initial hearings of a commission of the FAS in relation to the claim are to be held in early December 2006. In the interim, the Directors believe that the existence of such claim will not have the effect of delaying the execution of an investment contract or any land lease in respect of the Khilkov Land Plot. Such claim is also not expected to delay Stolichnoe Podvorie’s relocation of the Khilkov Building’s existing tenants. Should the claim be upheld, Stolichnoe Podvorie and therefore the Group may cease to have rights to develop the Khilkov Development. The Directors believe that, having regard to its substance, the claim is unlikely to have any material impact on the Group.

The Group is not currently aware of any potential zoning issues with respect to the proposed Khilkov Development.

All of the Pre-Construction Phase Documentation has yet to be prepared and submitted to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot.

#### *Key steps required to complete the Khilkov Development*

In addition to the requirement to enter into an investment contract and short term land lease, to obtain approval for demolition of existing building on the site, as well as the need to relocate all owner-occupiers described above, once all of the Pre-Construction Phase Documentation has been prepared and submitted to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot, the Act of Permitted Use of Land Plot will then need to be approved by a resolution of the Moscow Government. Once such resolution is issued, the Group must then prepare the design documentation (which must be approved in compliance with applicable law) and obtain a construction permit from the Architectural Authority of Moscow before commencing construction.

Once a construction permit has been obtained, construction may commence. Upon completion of construction, Stolichnoe Podvorie will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. The parties to the anticipated investment contract will also need to execute a form of final protocol certificate confirming that all of their respective obligations under such investment contract have been fulfilled. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Department of the Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued. If Stolichnoe Podvorie is to acquire any share that may be held by the Moscow Government in the development, it will need to pay to the Moscow Government the amount determined by the Moscow Government’s appointed valuer for such share.

Upon receipt of the Certificate of Registration of Rights, Stolichnoe Podvorie, as the registered owner of the building, will have a right to obtain a long term land lease from the Moscow Government. Such a lease would generally be for a term of 49 years and must be registered with the Department of the Federal Registration Service for Moscow.

### *Post-construction strategy and management of the Khilkov Development*

The Group currently intends to sell the residential properties within the Khilkov Development as and when completed. As the non-residential area intended to comprise part of the Khilkov Development is a relatively small proportion of the total development, the Group may also sell such non-residential property.

### **Pipeline properties**

#### *Taganka Development*

##### *Description of the Taganka Development*

The Taganka Development is a proposed office, retail and residential development, construction of which has not yet commenced. As described further below, the Group currently does not have any land lease rights in relation to the Taganka Development, nor does it have any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development, although the Directors believe that the Moscow Government is, in general, supportive of the grant of such rights. Pending the grant of such rights, the Taganka Development is expected to be completed in the fourth quarter of 2009.

The Taganka Development is to be located at 5-13 Nizhniy Tagansky Lane, in the Tagansky District. The Taganka Development is to be adjacent to the Zemliano Development, and is within 250 metres of the “Taganskaya” metro station. Construction of the Taganka Development is expected, in due course, to require the demolition of one of the three existing buildings on the site. The Directors intend that the Taganka Development will consist of a refurbishment of an existing theatre on the site and the construction of newly built office and retail space, planned to comprise three connected buildings which will form a multifunctional complex, including an underground car park. A road connecting two streets may be built within the development.

The Taganka Development will comprise 12 levels, including four underground levels. The four underground levels will be used for parking for approximately 800 vehicles. The gross internal area of the completed complex will be approximately 67,995 square metres, including retail space of approximately 17,714 square metres, office space of approximately 9,085 square metres, residential space of approximately 5,387 square metres, parking space of approximately 25,600 square metres and a theatre of approximately 9,016 square metres. The remaining space (approximately 1,193 square metres) will consist of common areas and ancillary and maintenance areas. The total land area of the existing site is approximately 1.476 hectares although the LLC Directway Investments Share Purchase Agreement dated 15 November 2006 refers to an intended land area for the Taganka Development of approximately one hectare.

In connection with the Admission process, the Industry Consultant has made the following valuations in respect of the Taganka Development:

- estimated value upon completion: US\$325,695,000 (excluding VAT);
- estimated market value in its existing state: US\$91,997,000 (excluding VAT); and
- estimated market rental value upon completion: US\$27,887,750 per annum (excluding VAT and service charges, and assuming full occupation).

Such valuation estimates are based on a 100 percent ownership interest in the development. Pending the grant of development rights in respect of the Taganka Development, the Group intends to hold 100 percent of the development following completion. The Directors believe that the Moscow Government wishes to retain ownership of the existing theatre on the site, which the Group plans to refurbish as part of the development. For valuation purposes, the Industry Consultant’s valuations have excluded any value attributable to such theatre. The development is in the early stages of design, and no pre-lettings or pre-sales have been made.

#### *Proposed Acquisition of the Taganka Development by the Group*

No formal approvals or resolutions of the Moscow Government have been granted permitting LLC Directway Investments to construct the Taganka Development, although the Directors believe that the Moscow Government is, in general, supportive of the grant of such rights. Should such rights be granted, the Group expects that LLC Directway Investments would enter into an investment contract with the Moscow Government in respect of the Taganka Development. **Investors are referred to the risk factor**



**entitled “The Group does not have any approvals from the Moscow Government to construct the Taganka Development” set out in Part II of this document.**

In connection with the formation of the Group, pursuant to the LLC Directway Investments Share Purchase Agreement, Yialoka Holdings Limited (“Yialoka Holdings”), a wholly-owned subsidiary of the Group, acquired 100 percent of the issued share capital of LLC Directway Investments from Directway Investments Limited (“Directway Investments”). The aggregate consideration payable for such acquisition is US\$5,200,000. Payment of such amount is conditional upon a resolution permitting the Group to construct the Taganka Development being issued, and in such event, payment is to be made within 60 days of such resolution being issued by the Moscow Government. In the event such resolution is not granted within six months of the date of the agreement, Yialoka Holdings is not obliged to complete the purchase. In the event that such resolution is not granted within 12 months of the date of the agreement, Directway Investments is not obliged to complete the purchase. Further details of the LLC Directway Investments Share Purchase Agreement are set out in paragraph 9.15 of Part VII of this document.

#### *Current status of the Taganka Development*

The Taganka Development is at a very early stage, as described in the preceding paragraphs.

The Group is not currently aware of any potential zoning issues with respect to the proposed Taganka Development. All of the Pre-Construction Phase Documentation has yet to be prepared.

#### *Key steps required to complete the Taganka Development*

On the basis that the Moscow Government issues a resolution granting LLC Directway Investments rights to construct the Taganka Development and that an investment contract would be entered into, LLC Directway Investments would need to enter into such investment contract and a short term land lease. It would subsequently need to obtain approval for demolition of existing buildings on the site, prepare and submit the Pre-Construction Phase Documentation to the Moscow Committee on Architecture and Town Planning in order to obtain the Act of Permitted Use of Land Plot, following which the Act of Permitted Use of Land Plot would then need to be approved by a resolution of the Moscow Government. Once such resolution has been issued, the Group must then prepare the design documentation (which must be approved in compliance with applicable law) and obtain a construction permit from the Architectural Authority of Moscow before commencing construction.

Upon completion of construction, LLC Directway Investments will need to obtain a Certificate of Commissioning of the New Building as well as a resolution of the prefecture of the relevant district (the Central Administrative Circuit) approving such certificate. The parties to the anticipated investment contract will also need to execute a form of final protocol certificate confirming that all of their respective obligations under such investment contract have been fulfilled. All of these documents, together with measurement documentation prepared by the Bureau of Technical Inventory, will need to be submitted to the Chief Department of Federal Registration Service for Moscow in order for the Certificate of Registration of Rights to be issued. On the basis that an investment contract would be entered into, if LLC Directway Investments is to acquire any share expected to be held by the Moscow Government in the development, it will be required to pay to the Moscow Government the amount determined by the Moscow Government’s appointed valuer for such share.

Upon receipt of the Certificate of Registration of Rights, LLC Directway Investments will have a right to obtain a long term land lease from the Moscow Government. Such a lease would generally be for a term of 49 years and must be registered with the Chief Department of Federal Registration Service for Moscow. If LLC Directway Investments does not acquire any share of the Moscow Government in the Taganka Development, prior to completion of the ownership registration process in respect of the Taganka Development, such long term land lease would be entered into in the names of both LLC Directway Investments and the Moscow Government.

#### *Post-construction strategy and management of the Taganka Development*

The Group currently intends to lease the Taganka Development to either a single or multiple tenants under medium or long term lease agreements according to prevailing market conditions. In the right market conditions, the Group may sell all or part of the development. The Group currently intends to sell the residential properties within the Taganka Development as and when completed.



## **Additional Potential Property Developments**

The Group is currently considering a number of additional development projects with third parties. Such developments are intended to be office, retail or residential developments, or a combination thereof.

## **Industry Consultant's Report**

Investors' attention is drawn to the full text of the Industry Consultant's Report prepared by DTZ, including the assumptions and methodologies set out therein, which is set out in Part V of this document. The Industry Consultant's Report provides further information on the above developments.

## **Financial Information**

Historical financial information for the Group on a consolidated basis covering the period from the Company's incorporation until 30 June 2006 is set out in Part VI of this document and is the subject of the Accountants' Report contained in Part VI of this document. Such reports do not constitute statutory accounts of the Company.

## **Insurance**

To date, the Company has only taken out limited insurance. The Group has only taken out insurance in respect of the Butikovsky Development and in respect of the existing building located at 37/7 Ostozhenka Street. In respect of the Butikovsky Development, this insurance covers certain limited construction related risks such as third party liability. In respect of the existing building located at 37/7 Ostozhenka Street, the insurance coverage is limited to damage to the existing building and certain equipment. In due course, the Directors intend to obtain additional insurance coverage as construction of the Group's developments progresses, assuming that cover is available on commercially reasonable terms.

## **Directors**

### *Board*

As at the date of this document, there are seven members of the Board. Collectively, the Board has extensive operational experience in the real estate market in Moscow, and the Board is composed of both international and Russian-based executives.

SSF III Father Holdings has the right to appoint one Director to the Board pursuant to the RGI Shareholders' Agreement, and has exercised that right. The Board is currently composed of the following persons:

### *Jacob Kriesler—Executive Chairman (Age 43)*

Jacob Kriesler was appointed as a Director and Chairman of the Company on 13 July 2006. Jacob Kriesler graduated with honours from Tel Aviv University in 1991 and 1992 with a BA and MA, respectively, in Economics. In 2004, Jacob Kriesler obtained a PhD in Economics from Bar-Ilan University. In 1992, Jacob Kriesler joined the money management firm, Meofim Limited. Jacob Kriesler set up KK Newton Investments Limited, a money management and investment firm based in Israel, in 1994. Since 1997, Jacob Kriesler has been involved in the formation of and investment in various start-up companies in Israel, including Media Excess Technologies Limited, Infobit Limited and Cardonet Limited. In 2005, Jacob Kriesler set up Kriesler Investments 2005 Limited, a money management and investment company and started to work with Boris Kuzinez when he was appointed a director of RGI Rose Group Investments Limited, an investment company based in Israel. Jacob Kriesler is also a director of Magma Industries Limited, a company listed on the Tel Aviv stock exchange.

### *Boris Kuzinez—Chief Executive (Age 57)*

Boris Kuzinez was appointed as a Director on 23 November 2006. Boris Kuzinez migrated from Latvia to Israel in 1971. In 1982, Boris Kuzinez set up Nuriel Interiors Limited, a furniture business which he owned and operated until he relocated to Russia in 1990. Boris Kuzinez sold his interest in Nuriel Interiors Limited in a management buy-out a few years after relocating to Russia. In 1990, Boris Kuzinez established Einav Limited, a Russian-based logistics and trading company. Boris Kuzinez commenced his Moscow property development business in 1993. Since 1995, Boris Kuzinez's property development business has focused on the development of high-end office, retail and residential properties situated in prime locations

in Moscow. Due to his reputation for building high-end developments in the Moscow real estate market, Boris Kuzinez is regularly approached by third parties, and expects therefore to be instrumental in sourcing attractive development opportunities for the Group in future.

*Mariana Golberg—Finance Director (Age 38)*

Mariana Golberg was appointed as a Director on 23 November 2006. Mariana Golberg graduated in 1999 from Tel Aviv University with a BA in Accounting. In 1990, Mariana Golberg graduated from Harkov University in Ukraine with an MA in Economics. Mariana Golberg acted as the audit manager at Zohar & Zohar Accounting (MGI), an accountancy firm in Israel, from 1996 to April 2000. Between May 2000 and August 2006, Mariana Golberg has held various positions within Africa-Israel Investments Ltd., an Israeli investment company which is active in, *inter alia*, property development. Such positions included foreign funds controller (between 2000 and April 2001 and from March 2003 through to 2005), chief financial officer in the Amsterdam office of a subsidiary of Africa-Israel Investments Ltd. (between 2001 and 2003) and financial director in the Moscow office of another subsidiary of such company where Mariana Golberg has since been based.

*Emanuel Kuzinets—Director (Age 30)*

Emanuel Kuzinets was appointed as a Director on 13 July 2006. Emanuel Kuzinets obtained a BSc in Mathematics in 2002 and a Diploma in Economics in 2003 from Tel Aviv University. Since 2003, Emanuel Kuzinets has been the purchasing director of Milouban (M.C.P.) Limited, a producer of cotton linter pulp. In 2005, Emanuel Kuzinets was appointed a director and the chief executive officer of RGI Rose Group Investments Limited, an investment company based in Israel. Emanuel Kuzinets is the son of Boris Kuzinez.

*Timothy Fenwick—Non-Executive Director (Age 59)*

Timothy Fenwick was appointed as a Director on 23 November 2006. Timothy Fenwick graduated in 1971 from the Université Catholique de Louvain with a Licence en Sciences Historiques. Timothy Fenwick has been involved in the commercial property market since 1972. Between 1972 and 1999, Timothy Fenwick was an investment partner of the Belgium and the Luxembourg offices of Jones Lang Wootton. Timothy Fenwick was also responsible for opening Jones Lang Wootton's Moscow office, and served as its general director during the period 1995 to 1999. Between 1999 and 2004, Timothy Fenwick served as an investment partner of Atisreal (Belgium & Luxembourg), a property services company. Since 2004, Timothy Fenwick has acted as a managing director for Quantum Potes s.a. (Luxembourg), a property company.

*Rafael Eldor—Non-Executive Director (Age 53)*

Rafael Eldor was appointed as a Director on 23 November 2006. Rafael Eldor graduated in 1978 from Tel Aviv University with a BA in Economics. Between 1981 and 1982, Rafael Eldor graduated from Harvard University with an MA and a PhD in Economics. Rafael Eldor was also appointed as chairman of Meofim Limited, a money management firm, between 1992 and 1996. Rafael Eldor was appointed as chairman of Menofim Finansim Lisrael Ltd (an investment company, publicly traded on the Tel Aviv stock exchange) between 1992 and 1995. Rafael Eldor chaired the audit committee and was a member of the investment committee of a Bar-Yaziv Provident Fund from 1995 through to 2006. Between 1995 and 2000, Rafael Eldor served as a director of a Bar-Yaziv Provident Fund. Rafael Eldor was appointed as a member of the board of Interkosma Ltd (a consumer product company listed on the Tel Aviv stock exchange) between 1997 and 2000. Since 1999, Rafael Eldor has acted as an academic manager of the Rich Center for the Study of Trading and the Financial Markets at the Arison Business School. Rafael Eldor has also chaired the investment committee of, and has acted as a director of, the Provident Fund of Union Bank (Egud Kupot Gemel Ltd) since 2001. Rafael Eldor's former name was Rafael Avizoff, and was changed to Rafael Eldor in 1981.

*Glenn Aaronson—Non-Executive Director (Age 49)*

Glenn Aaronson was appointed as a Director on 27 September 2006, and is the representative on the Board of SSF III Father Holdings. Glenn Aaronson graduated from Cornell University in 1978 as a Bachelor of Science and from Cornell University Graduate School of Business in 1979. Glenn Aaronson graduated from Golden Gate University in 1993 with a Masters in Tax. Glenn Aaronson is currently Head of Investing and Co-Head of European Real Estate Management, responsible for investment acquisition

throughout Germany, Holland, Central Europe and Russia for a number of Morgan Stanley sponsored real estate funds. Glenn Aaronson has also held other real estate-oriented positions within Morgan Stanley. Between 1998 and 2001, Glenn Aaronson was the head of Credit Suisse First Boston's European Real Estate Group.

#### *Independent non-executive director*

It is intended that the Company will appoint an additional independent non-executive director resident in the United Kingdom, as soon as practicable following Admission. A specialist executive search firm has been appointed to assist the Board to identify an appropriate individual.

### **Corporate Governance**

Following Admission, the Company intends to adopt practices to comply, so far as practicable and appropriate for a company of its size, with the main provisions of the Combined Code. There is no corporate governance regime with which the Company needs to comply in Guernsey, its place of incorporation. However, the Company has established an audit committee, remuneration committee and nomination committee.

The Company has also adopted a share dealing code, based on the Model Code (as set out in Annex 1R to Chapter 9 of the Listing Rules of the UK Listing Authority) for Directors, persons discharging managerial responsibilities and relevant employees which is appropriate for an AIM quoted company and is in accordance with Rule 21 of the AIM Rules.

#### *Audit Committee*

The Company has established an Audit Committee. The Audit Committee will comprise at least three members, a majority of whom shall be independent non-executive Directors. Initially, they will be Glenn Aaronson, Rafael Eldor and Timothy Fenwick. It will meet at least twice each year and at any other time when it is appropriate to consider and discuss audit and accounting related issues. The Audit Committee will be responsible for monitoring the quality of any internal controls and for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. It will also meet the Company's auditors and review reports from the auditors relating to accounts and any internal control systems. It will initially be chaired by Rafael Eldor.

#### *Remuneration Committee*

The Company has established a Remuneration Committee. The Remuneration Committee will comprise at least three members, a majority of whom shall be independent non-executive Directors. Initially, they will be Glenn Aaronson, Rafael Eldor and Timothy Fenwick, who will review the performance of the executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of Shareholders. In determining the remuneration of executive Directors, the Remuneration Committee will seek to enable the Company to attract and retain executives of the highest calibre. No Director will be permitted to participate in discussions or decisions concerning their own remuneration. The Remuneration Committee will initially be chaired by Timothy Fenwick.

#### *Nomination Committee*

The Company has established a Nomination Committee. The Nomination Committee will comprise at least three members, a majority of whom shall be independent non-executive Directors. Initially, they will be Jacob Kriesler, Rafael Eldor and Timothy Fenwick, who will be responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise. The Nomination Committee will initially be chaired by Rafael Eldor.

### **Takeover Code**

The Takeover Code will not apply to the Company. As a result, a takeover offer for the Company will not be regulated by the UK takeover authorities. The Articles contain certain takeover protections, although these will not provide the full protections afforded by the Takeover Code. The relevant provisions of the Articles are summarised in paragraphs 4.18 and 4.19 of Part VII of this document.

## **Disclosure of Shareholdings**

Although the Companies (Guernsey) Laws 1994 (as amended) contain no requirement for shareholders to disclose their interests in the Ordinary Shares, the Company has, conditional upon Admission, adopted provisions in the Articles requiring any person who becomes interested in three percent or more of the Company's relevant share capital to disclose the nature and amount of such interest and providing for sanctions against persons who fail to do so. The relevant provisions of the Articles are summarised in paragraph 4.20 of Part VII of this document.

## **Environmental Issues**

Environmental laws and standards in Russia are not generally comparable to those in more developed countries and, therefore, the pollution-related liabilities of any property may not be determinable at the time the Group acquires its rights to such land for development. Contamination of any land being developed by the Group unknown or undetected at the time of acquisition may result in material delays or increase the cost of construction and may adversely affect the Group's return on such development.

So far as the Directors are aware, the Group has obtained all necessary licences and complies in all material respects with all relevant environmental requirements existing under applicable Russian law. As described under the heading "Overview of the Property Development Process" in this Part III, the preliminary design suggestions for each development must be approved by various federal and City of Moscow authorities. This includes obtaining approval from the Department on Environmental Protection of the City of Moscow. Any environmental issues arising during the course of development are addressed with the appropriate environmental authority. To date, the Group has not commissioned any independent third party environmental assessments of the developments described in this document.

So far as the Directors are aware, there are no environmental issues that may affect the Group's utilisation of its tangible fixed assets, other than the following. A risk exists that the Butikovsky Land Plot may be located within the water protection zone of the Moscow river, which would result in some limitations for its use. Under Russian law, development within the water protection zones is generally possible with the approval of the relevant state authority. However, certain activities are prohibited in the water protection zones, such as car washing or car parking facilities. The design documentation for Butikovsky Development envisages construction of an administrative building with underground parking and a car wash. Although the competent state authorities of the City of Moscow approved such design documentation, according to a letter from the Moscow State Interdepartmental Inspection No. MGE-3/189 dated 9 February 2006, the District Environmental Prosecutor's Office of the City of Moscow believes that the Moscow state authorities were not authorised to approve the allocation of car parking and car washing facilities on the land plots located within the water protection zones of the Moscow river. Therefore, there is a risk of invalidation of the resolutions of the Moscow state authorities which approved the design documentation for construction of the Butikovsky Development. Theoretically, the absence of any construction approvals required by state authorities may result in such structure being deemed to be an unauthorised construction, potentially leading to its subsequent demolition pursuant to a court order. This risk is, however, mitigated by the ambiguity of the City of Moscow legislation defining the size of the water protection zones for developed areas in the City of Moscow (such as Butikovsky Lane). It is not completely clear under City of Moscow legislation whether or not the Butikovsky Land Plot is actually located within a water protection zone.

## **Related Party Transactions**

Details of related party transactions are set out under the heading "Relationship with Boris Kuzinez" in this Part III, and further in paragraph 8 of Part VII of this document.

## **Dividend Policy**

The Company has not paid any dividends on the Ordinary Shares since its incorporation. The Group's developments will initially be highly capital intensive, given the early stage nature of the Group's portfolio. The Directors do not therefore currently anticipate paying dividends in the foreseeable future.

The declaration and payment of any dividends on the Ordinary Shares is at the discretion of the Board. The Board's intention is for the Company to commence the payment of dividends when it becomes commercially prudent to do so. In the long term the Group will target a dividend rate of between 30 to 70 percent of recurring income. Any declaration and payment of dividends by the Group will be dependent

upon the Group's results, financial position, cash requirements, future prospects, profits available for distribution and other factors regarded by the Directors as relevant at the time. There can be no guarantee that the Company will be able to pay dividends on the Ordinary Shares in the foreseeable future.

### **Reasons for Admission and Offer**

The Directors are seeking Admission and proceeding with the Offer in order to raise funds to continue the development and construction of the Group's current and pipeline developments and to provide the Group with additional working capital to execute its business strategy outlined in this Part III.

The Directors consider that the Company's Admission will be an important step in its development and will enhance its standing in the market. It will also enable the Group to access finance which may be required in order to allow the Group to progress its current and future developments and, if the Board so determines, to expand in its chosen markets both organically and through selective acquisitions.

### **Use of Proceeds**

The Company is seeking to raise US\$174,595,500 (before expenses and assuming no exercise of the Over-allotment Option) through the Offer Shares, which will be used, in order of priority, to:

- settle the expenses and fees of the Offer and Admission process;
- continue the Group's current development programme, including certain payments to related and non-related third parties to complete the acquisition of the Group's assets;
- provide working capital and funds for general corporate purposes; and
- potentially, fund the development of future projects.

### **Liquidity and Financing**

The acquisition of the Group's rights to the developments described in this document has, in part, been financed through a combination of capital contribution from D.E.S. (as described in the RGI Subscription Agreement set out in paragraph 9.25 of Part VII of this document) and the proceeds of the subscription by SSF III Father Holdings pursuant to the RGI Subscription Agreement.

The Group will need to raise additional finance in order to fund the development of its existing projects and to acquire future developments. Following the Offer and Admission, the Group will have sufficient funds to finance the development of its current projects, with the exception of the Taganka Development, for which external finance will be required.

On Admission, the Group will have no material external indebtedness, the Group expects to have the capacity to raise external debt financing, which will depend upon, *inter alia*, the status of the permits and approvals necessary to proceed with the Group's development projects and the extent of any bank guarantees required by the Moscow Government in respect of the Group's developments.

In the event that the Group is required to enter into an investment contract with the Moscow Government in respect of a new development, prior to such investment contract being entered into, the Moscow Government will require the relevant Group Company to obtain a bank guarantee in favour of the Moscow Government as further described under the heading "Overview of the Property Development Process" in this Part III. The requirement to obtain such a bank guarantee (in relation to one or a number of the Group's developments) may impact upon the Group's ability to obtain finance from third parties. This requirement may be relevant to the Tsvetnoy Development (in respect of the Tsvetnoy Additional Land Plot), the Taganka Development and the Khilkov Development, together with any future developments which are to be undertaken pursuant to an investment contract.

### **Lock-up Undertakings**

Pursuant to the Underwriting Agreement, the Directors have undertaken to Morgan Stanley and KPMG Corporate Finance that, during a period of 365 days from the date of Admission they will not, without the prior written consent of Morgan Stanley and KPMG Corporate Finance, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities that are convertible into or exchangeable for, or substantially similar to, Ordinary Shares, or enter into any



transaction with the same economic effect as, or agree to do any of the foregoing, except in certain strictly limited circumstances (including acceptance of a general offer to holders of all the Ordinary Shares).

Pursuant to the Underwriting Agreement, the Company has undertaken to Morgan Stanley and KPMG Corporate Finance that, during a period of 180 days from the date of Admission it will not, without the prior written consent of Morgan Stanley and KPMG Corporate Finance, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities that are convertible into or exchangeable for, or substantially similar to, Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do any of the foregoing, save in respect of Ordinary Shares issued pursuant to the Offer.

Pursuant to separate lock-up deeds, each of D.E.S., SSF III Father Holdings and Kensington Gore has undertaken to Morgan Stanley, as broker, and KPMG Corporate Finance, as nominated adviser, that they will not, except in certain strictly limited circumstances (including acceptance of a general offer to holders of all the Ordinary Shares), without the prior written consent of Morgan Stanley and KPMG Corporate Finance, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities that are substantially similar to, convertible into, or exchangeable for, the Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do any of the foregoing for a period of 365 days from the date of Admission (the "Lock-up Period").

The lock-up deed entered into by SSF III Father Holdings prevents SSF III Father Holdings from, for a period of 365 days from Admission: (i) exercising its put option under the RGI Shareholders' Agreement and (ii) exercising its tag-along right under the RGI Shareholders' Agreement.

Further details of the above deeds and agreements are set out in paragraphs 9.27 and 9.36 of Part VII of this document.

### **Currency**

The Group's principal functional operating currency will be Russian Roubles. The Company intends, as required, to convert the US dollar proceeds of the issue of the Offer Shares into Roubles, or other currencies, following the close of the Offer.

The Ordinary Shares will be quoted on AIM in US dollars.

The Group's income and expenditure will be predominantly denominated in Roubles although it is expected that for commercial purposes a significant proportion of such income and expenditure may be negotiated using US dollars and paid in Roubles at the prevailing spot rate. A small proportion of expenditure may be denominated in US dollars. The Directors plan to undertake hedging activities, as required, in order to mitigate the risk of unfavourable exchange rate fluctuations.

### **Terms and Conditions of the Offer**

Morgan Stanley has agreed to procure subscribers for or, failing which, itself to subscribe for, as agent for the Company, the Offer Shares at the Offer Price, which will represent approximately 29.5 percent of the enlarged ordinary share capital of the Company following Admission (assuming no exercise of the Over-allotment Option). In addition, a further 2,909,925 Ordinary Shares are being made available by the Company to Morgan Stanley or such persons as it may procure, pursuant to the Over-allotment Option described below. On the basis that Shareholders prior to the Offer do not participate in the Offer, which is open to institutional investors only, the Offer, assuming no exercise of the Over-allotment Option, will represent an immediate dilution of such Shareholders of US\$2.51 per share and an immediate dilution of such Shareholders of 29.5 percent.

The Offer Shares will be issued fully paid, and following allotment, will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission. The rights attaching to such Ordinary Shares are set out in paragraph 4 of Part VII of this document.

The Offer is conditional, among other things, on Admission. The Offer and Admission are subject to certain conditions contained in the Underwriting Agreement.

The Minimum Subscription for Offer Shares is 1,000 Ordinary Shares.

The Underwriting Agreement contains provisions entitling Morgan Stanley to terminate the Underwriting Agreement at any time prior to Admission in certain circumstances. If this right is exercised the Offer will lapse. Further details of the Underwriting Agreement are set out in paragraph 9.27 of Part VII of this document.

The gross proceeds of the Offer, based on the Offer Price and assuming no exercise of the Over-allotment Option, are expected to be approximately US\$174.6 million. The net cash proceeds to the Company of the Offer (after deduction of expenses (estimated in total to be US\$12 million) and assuming full subscription) are expected to be approximately US\$162.6 million.

It is expected that the proceeds of the Offer due to the Company will be received by it on or soon after Admission.

The Ordinary Shares are in registered form. Prior to Admission, the Company has issued share certificates in respect of its issued share capital, and has maintained the Register of Members in book entry form. The Register of Members has been maintained by the Company at its registered office.

It is expected that, subject to the satisfaction of the conditions of the Offer, the Offer Shares will be registered in the names of the offerees subscribing for or acquiring them and issued or transferred either:

- (i) in CREST, where the offeree so elects and only if the offeree is a “system member” (as defined in the Uncertificated Securities Regulations 2001) in relation to CREST, with delivery (to the designated CREST account) of the Offer Shares subscribed for or purchased expected to take place on 13 December 2006; or
- (ii) otherwise, in certificated form, with the relevant share certificate expected to be despatched by post by 20 December 2006.

Notwithstanding the election by offerees as to the form of delivery of the Offer Shares, no temporary documents of title will be issued. All documents or remittances sent by or to offerees or as they may direct will be sent through the post at their risk. Pending despatch of definitive share certificates or crediting of CREST stock accounts (as applicable), the Company’s registrars will certify any instrument of transfer against the Register of Members.

#### **Plan of Distribution and Allotment**

The Offer Shares are not being offered generally and no applications have been or will be accepted other than under the terms of the Underwriting Agreement.

#### **Pricing and Underwriting**

Morgan Stanley has entered into a commitment under the Underwriting Agreement pursuant to which it has agreed, subject to certain conditions, to procure subscribers for the Ordinary Shares to be issued by the Company under the Offer, or, failing which, to subscribe for such Ordinary Shares itself, at the Offer Price. The Underwriting Agreement contains provisions entitling Morgan Stanley to terminate the Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Offer and these arrangements will lapse and any monies received in respect of the Offer will be returned to applicants without interest. The Underwriting Agreement provides for Morgan Stanley to be paid commissions of (i) six percent of an amount equal to the Offer Price multiplied by the number of Offer Shares issued pursuant to the Offer; and (ii) six percent of the amount equal to the Offer Price multiplied by the number of Over-allotment Shares (if any) subscribed for pursuant to the Over-allotment Option. Further details of the Underwriting Agreement are set out in paragraph 9.27 of Part VII of this document.

#### **Admission to Trading and Dealing Arrangements**

The Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature. Certain conditions are related to events which are outside the control of the Company, the Directors, Morgan Stanley, Shore Capital and KPMG Corporate Finance.

It is expected that Admission will take place and unconditional dealings in the Ordinary Shares will commence on AIM on 13 December 2006. Settlement of dealings from that date will be on a three-day rolling basis. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a

conditional basis on AIM on 8 December 2006. The earliest date for settlement of such dealings will be 13 December 2006. All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued” basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed. The Ordinary Shares will have the ISIN number GG00B1H11J88.

Each prospective investor will be required to undertake to pay the Offer Price for the Ordinary Shares sold or issued to such prospective investor in such manner as shall be directed by Morgan Stanley.

It is expected that Ordinary Shares allocated to prospective investors in the Offer will be delivered in uncertificated form and settlement will take place through CREST on Admission. No temporary documents of title will be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the persons concerned.

### **Over-allotment and Stabilisation**

In connection with the Offer, Morgan Stanley, as stabilising manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market. Morgan Stanley is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be taken during the period from 8 December 2006 up to and including 7 January 2007. Save as required by law or regulation, neither Morgan Stanley nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer.

In connection with the Offer, Morgan Stanley, as stabilising manager, may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 10 percent of the total number of Ordinary Shares comprised in the Offer. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares by it during the stabilising period, the Company has granted to Morgan Stanley the Over-allotment Option, pursuant to which Morgan Stanley may require the Company to issue additional Ordinary Shares up to a maximum of 10 percent of the total number of Ordinary Shares comprised in the Offer at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by Morgan Stanley, at any time on or before the 30th calendar day after commencement of conditional dealings in the Ordinary Shares. Any Ordinary Shares made available pursuant to the Over-allotment Option will be issued on the same terms and conditions as the Ordinary Shares being issued in the Offer and will form a single class for all purposes with the other Ordinary Shares.

### **CREST**

CREST is a paperless settlement procedure which allows securities to be evidenced without a certificate and transferred other than by written instruction. The Company’s Articles permit the holding of Ordinary Shares under the CREST system. Application has been made for all of the issued and to-be-issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual Shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Should Shareholders wish to hold their Ordinary Shares in CREST, they will need to follow the requisite CREST procedures.

The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission.

### **Securities Laws**

The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an

offer to subscribe for, or to buy any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make any such offer or solicitation in such jurisdiction.

**Additional Information**

**Prospective investors should carefully consider the information set out in Parts I to VII of this document, and in particular to the section entitled “Risk Factors” in Part II of this document which sets out certain risk factors relating to any investment in the Ordinary Shares.**

## PART IV

### THE MOSCOW REAL ESTATE MARKET

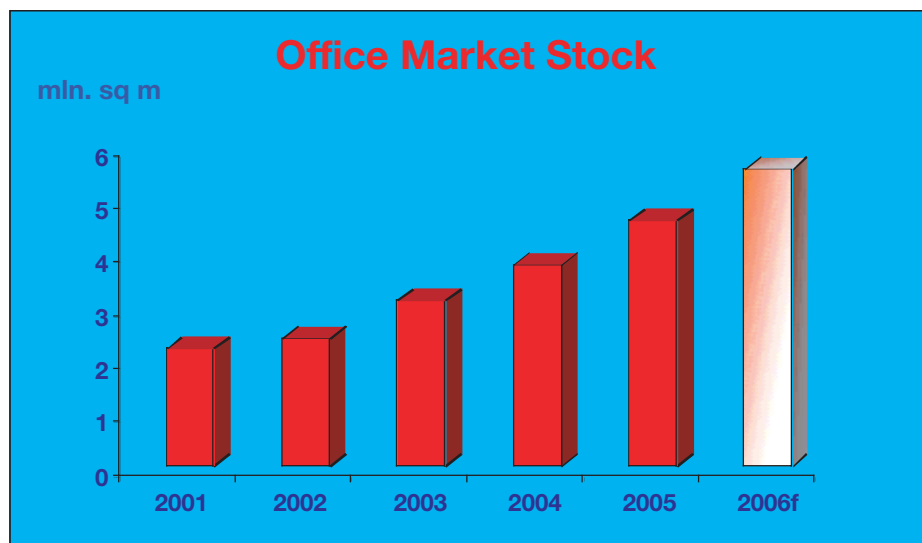
**Certain information contained in this Part IV has been sourced from third parties. The Company believes that this information has been accurately reproduced and, as far as the Company is able to ascertain from information published by such third parties, no facts have been omitted which would render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

#### **The Moscow Office Market**

##### *Supply*

An estimated 300,000 square metres of new office space was released into the Moscow market in the first half of 2006. This increased the stock of Class A and B office space to approximately 4.9 million square metres. The majority of this new office space supply (approximately 65 percent) is located outside Central Moscow (which is generally accepted as being within or in the vicinity of the Garden Ring).

The supply of new high quality office premises in 2006 is estimated to potentially reach 1,000,000 square metres although delays in deliveries may result in the final figure in 2006 being substantially lower. Recent and prospective evolution in stock is illustrated in the graph below.



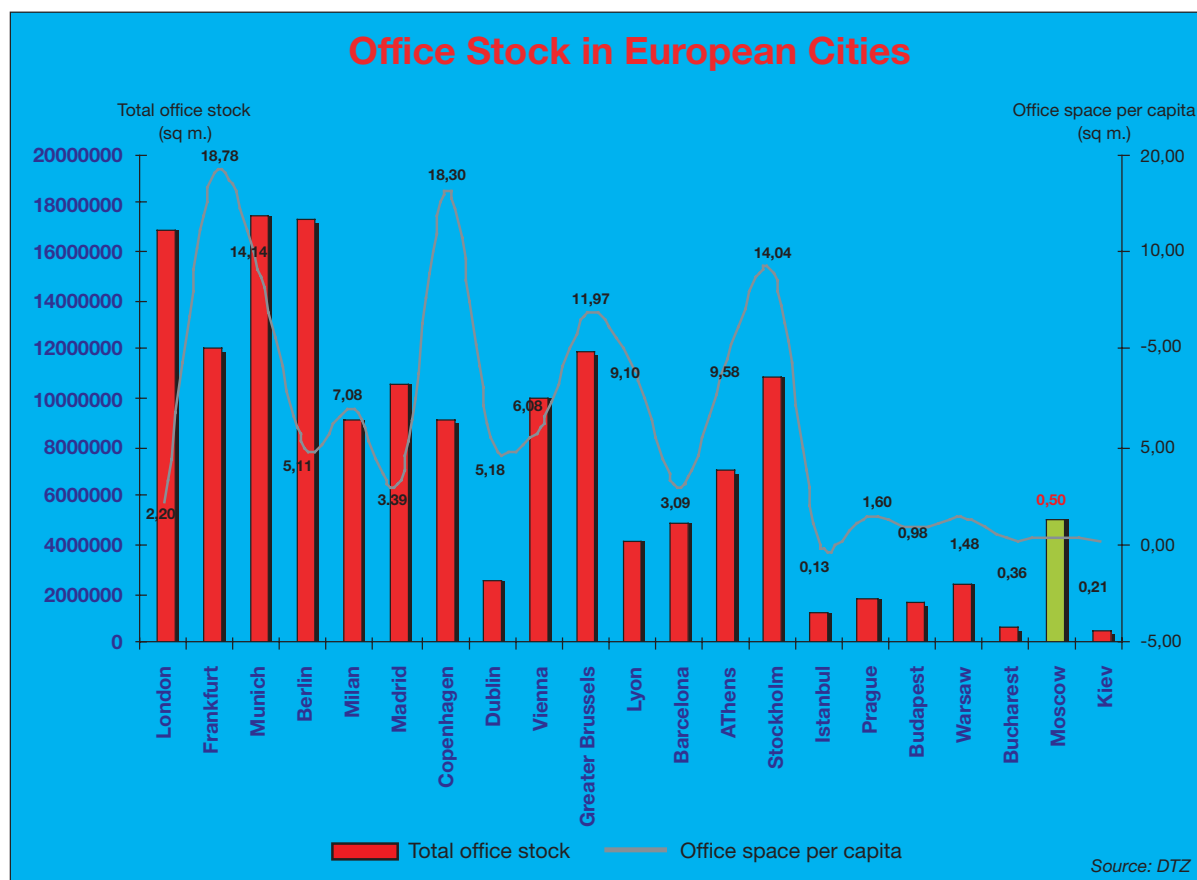
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Source: DTZ

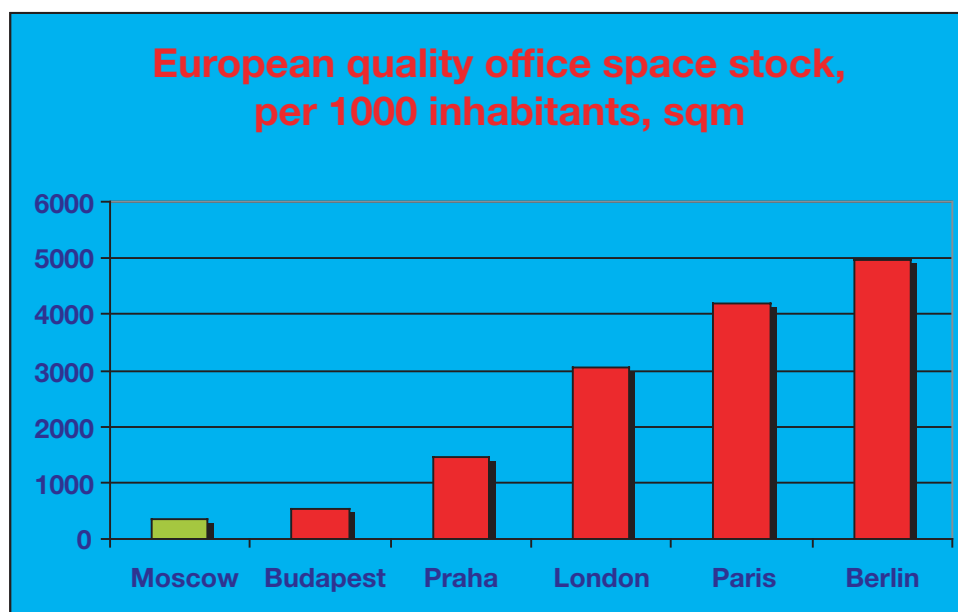
Among the more important new trends in office premises is the increasing scale of the projects and their multifunctionality. A further trend relates to an increased demand for old industrial buildings offering open plan facilities, high ceilings and high floor load capacity.



The following graph illustrates total office stock in various European cities.



The following graph illustrates certain European office stock per 1000 inhabitants.



Source: DTZ

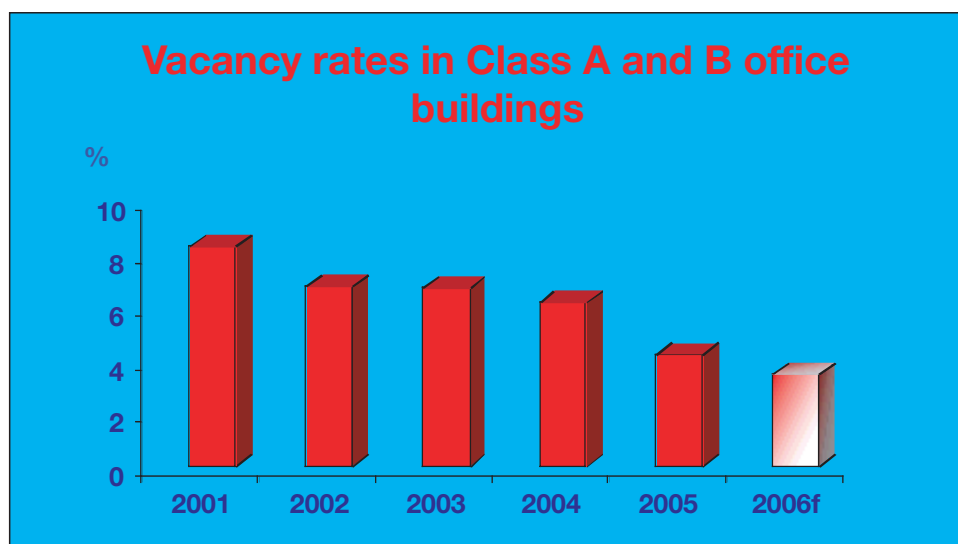
### *Demand*

Demand for office space in the Moscow market still significantly exceeds supply. The highest demand is for office space of between 100–500 square metres. There has been a considerable increase in the pre-lease and pre-sale levels of new office space, with many new office buildings having zero vacancies on completion. A good example is Ducat III, located at Gasheka Street (i.e. just outside of the Garden Ring, at approximately 32,800 square metres) which has been 100 percent pre-let prior to completion.

The “take-up” in the first half of 2006 of new office space amounted to 440,000 square metres (approximately 70 percent of such office space was leased and 30 percent was sold). Although the majority of such “take up” was in the centre of Moscow, demand is shifting towards business centres situated in other areas of the city. The most popular areas are between the Garden Ring and the Third Ring Road.

Vacancy rates continue to be very low and are currently around 3.9 percent. The Moscow office market currently has a higher shortage of Class A buildings than of Class B buildings. This results in lower vacancy rates for Class A office premises than Class B office premises. Vacancy rates are not expected to increase significantly in the next two years, because new premises delivered to the market are often reserved through pre-lease and pre-sale deals.

The following graph illustrates recent trends in the vacancy rates for office space in the Moscow market.

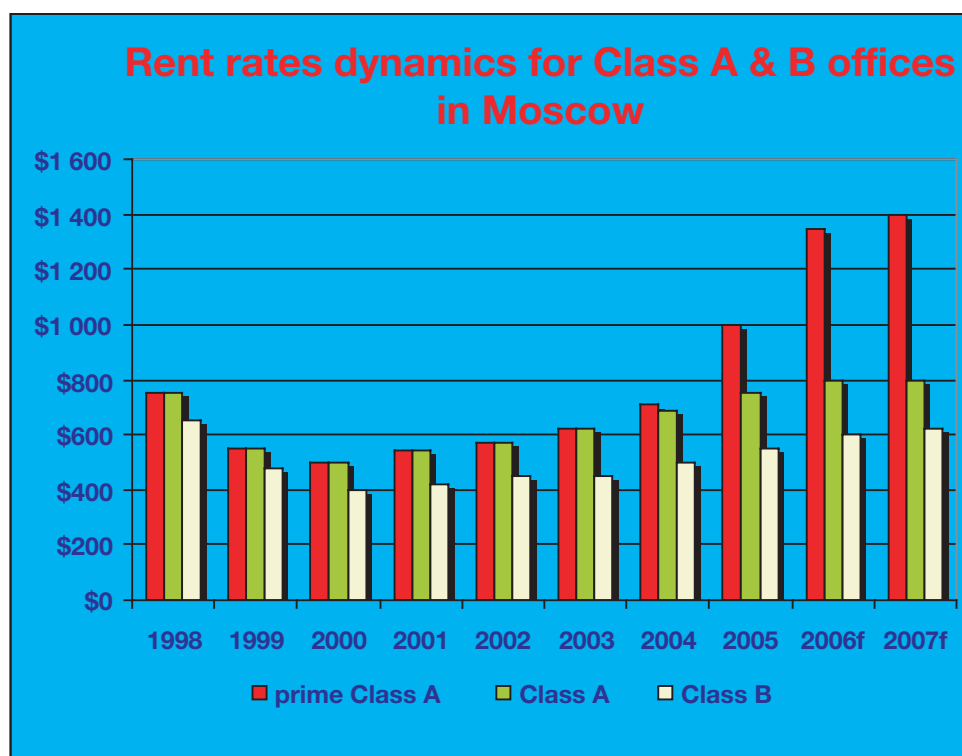


Source: DTZ

### *Rental Rates*

The shortage of supply and decreasing vacancy rates has led to a gradual increase in rental rates. The base rental rates for the majority of Class A office space currently range between US\$650–900 per square metre per annum if located inside the Third Ring Road and between US\$400–600 if located outside the Third Ring Road. The base rental rates for the majority of Class B office space currently ranges between US\$300–700 per square metre per annum.

The following graph illustrates certain rental rates for Class A and Class B offices in Moscow.

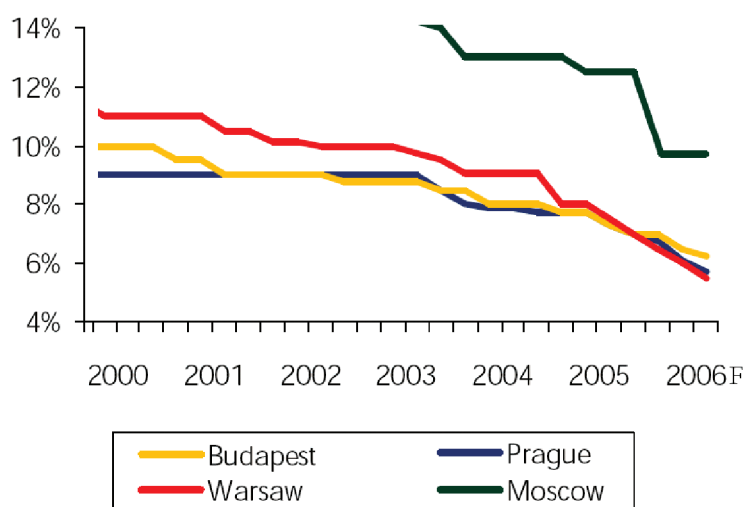


Source: DTZ

Sale prices continue to grow strongly. Prices for Class A office buildings currently range between US\$4,000–9,000 per square metre. Prices for Class B office buildings currently range between US\$1,500–3,000 per square metre.

The following graph illustrates prime office yields in the Central and Eastern European and the Moscow market from 2000.

### PRIME OFFICE YIELDS : CEE3 & MOSCOW



Source: DTZ

### New Developments

The most significant office buildings completed and released into the Moscow office market in the first half of 2006 are set out in the following table.

Class	Building Name	Address	Total area, (sq m)
A.....	Gorky Park Tower	Leninsky prospect, 13	32,800
A.....	Pushkinsky Dom	Strastnoy boulevard, 9	18,500
A.....	Vaviloff Tower	Vavilova st., 24	7,600
A.....	Severnoye Siyaniye	Pravdy st., 24	39,000
A.....	Borodino	Rusakovskaya st., 13	33,000
A.....	Wave	Akademika Sakharova prospect, 8	18,700
A.....	Concord	Shabolovka st., 10	28,600
B.....	Lefort Phase I	Electrozavodskaya st., 27	15,000

Source: DTZ

Details of some of the major pipeline developments for the Moscow office market are 2006 are set out in the following table.

Building Name	Address	Class	Total area, (sq m)	QTR
Office Centre Mozhaisky Val .....	Mozhaisky Val st., 6a	A	9,500	III
Hermitage Plaza .....	Krasnoproletarskaya st., 24/6	A	42,000	III
Office Complex Pokrovka .....	Pokrovka st., 40	A	14,770	III
Central City Tower—Phase II .....	Ovchinikovskaya emb., 20	A	14,000	III
Rostek .....	Zavoda Serp & Molot proezd, 6	A	21,230	III
Ducat Place III .....	Gasheka st., 6	A	32,800	IV
Lotte Plaza .....	Novy Arbat st., 21	A	20,000	IV
Di Fronte de la Casa .....	Gruzinskaya Bol., 71	A	31,269	IV
Federation Tower B .....	Krasnopresnenskaya emb., site 16	A	110,500	IV
Krugozor—Phase I .....	Obrucheva st., 30	B	36,600	III
Novosushevsky BC .....	Sushevsky Val st., 18	B	75,000	III
Business Centre Stanislavsky—Phase I . . .	Stanislavskogo st., 21	B	17,000	III
Alteza .....	Vysokovoltny proezd, 1	B	21,000	IV
Lefort .....	Electrozavodskaya st., 27	B	18,000	IV
Novospassky Dvor .....	Derbenevskaya emb., 7	B	100,000	IV

Source: DTZ

Details of some of the major developments leased in the Moscow office market in the first half of 2006 are set out in the following table.

<b>Building/Address</b>	<b>Tenant</b>	<b>Total area, (sq m)</b>	<b>Quarter</b>
Pushkinsky Dom/Strastnoy boulevard, 9 . . . . .	Gazexport	12,500	I
Novy Dvor/Yakimanskaya embankment, 4/4 bld. 1 . . . . .	Equant	6,000	I
Vaviloff Tower/Vavilova st., 24 . . . . .	Astra-Zeneka	3,000	I
Kozhevnikeskaya st., 14 . . . . .	Renaissance Capital	3,000	I
Balchug Plaza/Balchug st., 5,7 . . . . .	Salans	4,000	II
Dubininskaya st., 53 . . . . .	Eurochem	5,995	II
Concord BC/Shabolovka st., 10 . . . . .	Nycomed	3,757	II
Silver House/Karamyshevsky prospect, 6 . . . . .	Sony	3,359	II
Polkovaya st., 3 . . . . .	Eldorado	11,000	II

Source: DTZ

Details of some of the major sales of developments for the Moscow office market in the first half of 2006 are set out in the following table.

<b>Building</b>	<b>Buyer</b>	<b>Seller</b>	<b>Quarter</b>
Federation Tower/Krasnopresnenskaya embankment, site 13, 60,000 sq m . . . . .	Vneshtorgbank	Mirax Group	I
Letnikovskaya st., 11/10 (28 buildings) . . . . .	Capital House	ALM Development	I
Novosushevsky BC/Sushevsky Val st., 18 . . . . .	Promyshlennye Investitsii	MR Group	I
Preobrazhenskaya square, 8 (Moscow New Ring project) .	Montazhinvest	City auction	I
Obraztsova st., 14 bld. 2 . . . . .	Grand-Prestige	Confidential	I
1st Kazachy lane, 9/1 . . . . .	International Moscow Bank	Confidential	I
Citydel/Zemlyanoy Val st. 11-19 (14,322 sq m) . . . . .	Henkel	Tema	II
Dvintsev lane., bld. 14 (the building under construction), 60,000 sq m . . . . .	MORE Group	MR Group	II
Slava/Leningradsky prospect, 8 (1 building of 115,000 sq m; is currently under the stage of construction documentation preparation) . . . . .	Confidential (western investment fund)	Bank Globex	II
Novodanilovskaya embankment, 8 (the building under construction), 40,000 sq m . . . . .	Confidential	MR Group	II
60-letiya Oktyabrya Prospect (investment project), 33,000 sq m . . . . .	National Reserve Company	Interoil	II
Tverskoy boulevard, 16 . . . . .	Lenstroyreconstruction	KFC	II

Source: DTZ

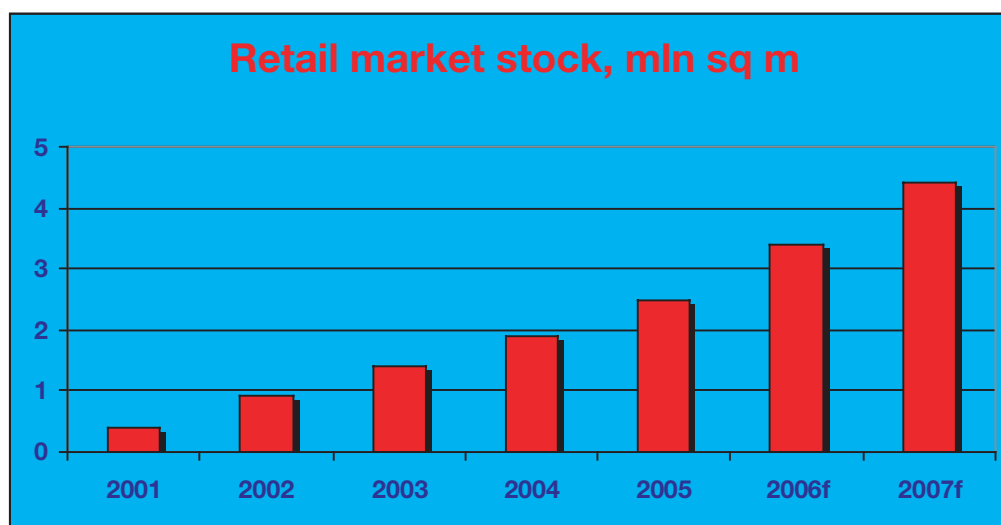
## The Moscow retail property market

### *Supply*

The total area of new shopping centres opened in Moscow in the first half of 2006 is estimated at 250,000 square metres. In 2006, the supply of modern shopping centres in Moscow has reached a total of approximately 2,750,000 square metres.



The following graph illustrates trends in the supply of retail market stock in Moscow from 2001.



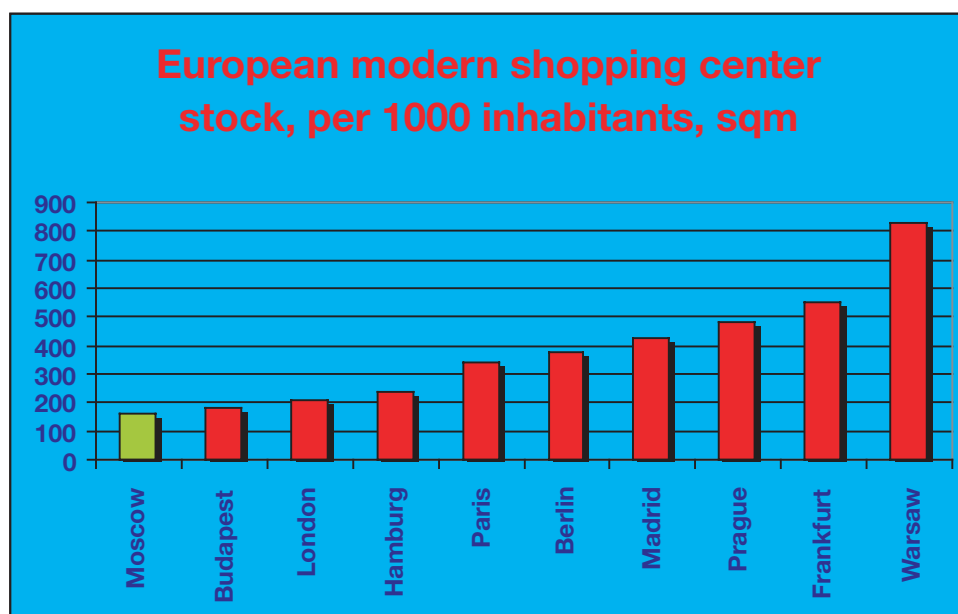
Source: DTZ

To date, the most significant event in 2006 has been the opening of the Gorod shopping complex (with a gross leasable area (“GLA”) of 50,000 square metres) developed by the TEN group of companies. The Gorod shopping complex is located at Ryazansky prospect, 2.

The majority of new retail property supply consists of projects located outside Central Moscow. However, more than 30 percent of the shopping centres planned to be opened in the second half of 2006 are located within Moscow’s central administrative area. The south-east and the east administrative areas of Moscow currently have the least retail property space.

It is expected that, by the end of 2006, more than 20 shopping centres with a total area of approximately 900,000 square metres will be released onto the Moscow retail property market. The largest of these projects is the Mega Belaya Dacha project in Kotelniki which has a total area of 270,000 square metres.

The following graph illustrates modern shopping centre stock per 1000 inhabitants in various European cities.



Among the current major trends in the Moscow retail property market is increasing competition between shopping centres. This has led to an increase in the entertainment components offered by particular shopping centres, and an increase in the scale of projects in general.

The general lack of availability of suitable retail property sites for large new build retail developments has led to a trend towards developing underground retail space. The most favoured zones for new retail property development are currently at the intersections of MKAD with arterial routes and the Third Ring Road. It is generally expected that the construction of the Fourth Ring Road will in time lead to the establishment of another development zone.

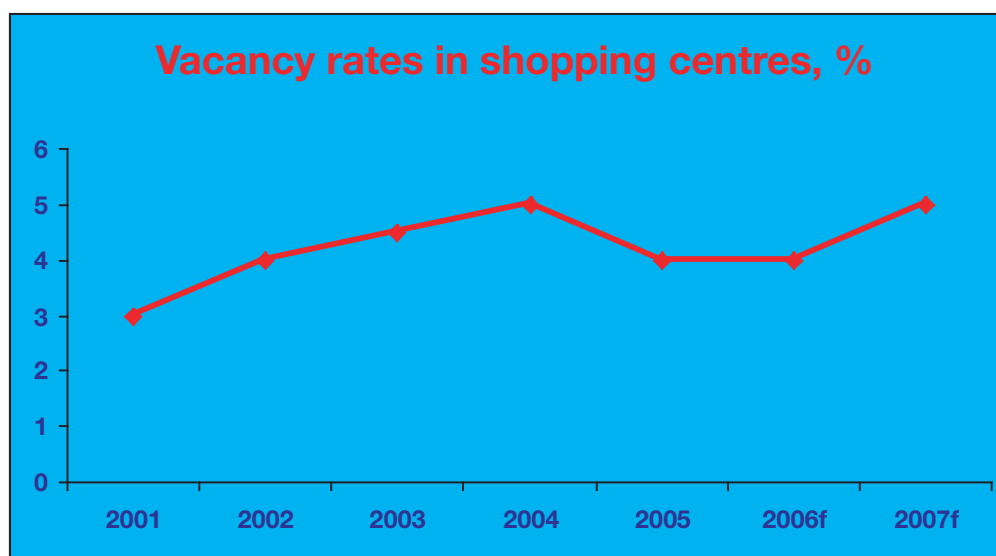
### *Demand*

The demand for quality shopping centres in Moscow is currently high and exceeds supply.

There is currently a trend towards increasing the size of the leasable area of individual units within retail property developments. While units of between 100–200 square metres are still in the highest demand within shopping centres, demand for units of between 250–1,000 square metres is increasing. Retail stores specialising in clothing and footwear constitute the majority of the shopping centre tenants. Such tenants typically prefer units with an area of between 70–500 square metres.

The location and quality of a particular shopping centre impacts greatly on the vacancy rate of the development. Vacancy rates for new build high-quality shopping centres are currently under one percent. Average vacancy rates in older shopping centres are around five percent, and this level is expected to increase due to the number of new purpose built shopping centres entering the market. The average vacancy rate in the Moscow shopping centre market is currently around four percent.

The following graph illustrates vacancy rates in Moscow shopping centres from 2001.



Source: DTZ

### *Rental Rates*

There was no substantial fluctuation in rental rates during the first half of 2006. The average rental rate in shopping centres in Moscow is currently around US\$1,260 per square metre per year (exclusive of operating expenses and VAT). The highest rental rates are in the central district of Moscow (currently between US\$500–US\$3,500 per square metre per annum). In other districts of Moscow, rental rates range between US\$300–US\$2,500 per square metre per annum. Anchor tenants typically enjoy the lowest rates (currently between US\$100–US\$550 per square metre per annum). Highest rates are typically paid by tenants occupying up to 30 square metres (currently above US\$5,000 per square metre per annum). Rental rates for cinemas, entertainment centres and supermarkets are generally at the lower end of the scale, whereas rental rates for retailers such as jewellery shops and mobile phone stores are generally at the higher end of the scale.

## New Developments

Details of some of the major retail property projects completed in Moscow in 2006 are set out in the following table.

Name	Address	Developer	Total area, (sq m)	Area
Retail Park . . . . .	Varshavskoe shosse, 97	Garant-Invest Nedvizhimost	47,500	S
Bibirevsky . . . . .	Bibirevskaya st., 10	OOO Kompania Toplivo i Resursy	18,600	NE
Svetofor . . . . .	Balashikha, Entuziastov shosse, 5 km from MKAD	Metropolis Plus	17,000	Moscow region
Krasny Kit . . . . .	Mytishi, Sharapovsky proezd	OOO Mytishi Plaza	29,150	Moscow region
Kolomensky . . . . .	Andropova prospect, 23-25	Garant-Invest Nedvizhimost	3,150	S
Gorod . . . . .	Ryazansky prospect, 2	TEN group of companies	134,000	SE

Source: DTZ

Details of some of the major pipeline retail property developments for the Moscow market are set out in the following table.

Name	Address	Developer	Total area of shopping and entertainment part, (sq m)	Area
Shopping Centre . . . . .	Metro Dinamo	Lithuanian concern Vikonda	15,000	N
Mosmart . . . . .	Borovskoe shosse/MKAD	ZAO Hypercentre	75,500	SW
Zolotoy Vavilon 2 . . . . .	Novoyasenevskiy prospect/ Yasnogorodskaya st.	Wakelin Promotions Limited	20,500	SW
Global City 2 <sup>nd</sup> Phase . . . . .	Kirovogradskaya st	OOO Global City	34,000	S
Chas Pik . . . . .	Korneychuka st. (87 km MKAD)	ZAO Friz-Tridem	25,000	NE
Sheremetyevskiy (Vesta Plaza) .	Nikolskaya st., 10	OOO Kora Plus	12,690 <sup>(1)</sup>	C
Schukinsky . . . . .	Schukinskaya st., 42	DS Development	98,000	NW
Mega Belaya Dacha 1 <sup>st</sup> Phase .	Kotelniki g., 1 Pokrovskiy proezd 4	IKEA Mos and Belaya Dacha	270,000 <sup>(2)</sup>	Moscow region
Aerobus . . . . .	Varshavskoe shosse, 95	Group of companies VneshInvestProm	17,430 <sup>(1)</sup>	S
Triapka . . . . .	Leningradskoe shosse, 23	Pole Management	20,000	N
Metromarket . . . . .	Shabolovka st., 10	Holding Capital Group	10,000	C
Europeysky . . . . .	Kievskaya square, 1	ZAO Kievskaya ploschad	180,000	C
Vorobyevy Gory . . . . .	Mosfilmovskaya st., 70	DS Development	25,000	SW
Altufyevsky . . . . .	Altufyevskoe shosse, 70	OOO Marcos-3	41,800	NE
Prazhsky Passage . . . . .	Krasnogo Mayaka st., 2	OOO Rent Estate—Service	35,000	S
Semenovsky 2 turn (1 part) . .	Semenovskaya square, 1	ZAO San'ei Moscow	23,000 <sup>(1)</sup>	E

### Notes:

1. Gross Leasable Area
2. Area of the whole complex, including IKEA and 2<sup>nd</sup> phase

Source: DTZ

Details of some of the significant transactions in the Moscow retail property market in 2006 are set out in the following table.

Subject	Seller	Buyer
7 premises, which were leased by Ramstore . . . . .	Global USA	Sedmoy Continent
Shopping centre on Zelenodolskaya st., 44 . . . . .	OOO Afganets	OOO Univermag Moskva
2 entertainment and shopping centres Mall Gallery and 2 sites (about 8 ha) . . . . .	ST Development	Meinl European Land Ltd.
Site at Kievskoe shosse (3 km MKAD) . . . . .	Group of companies Absolut	Trade House Perekrestok
Europark . . . . .	OOO Daev Plaza	Ligastroyproject
Dom Igrushki . . . . .	ZAO Tirex Development	OAO Detskiy Mir-Centre
6 “Zara” stores . . . . .	Stockmann	Inditex Group
2 shopping centres Zolotoy Vavilon . . . . .	Wakelin Promotions Limited	Immoeast
15 supermarkets . . . . .	Holding Marta	Billa Russia
1/5 of office & retail premises of a project of a multifunctional centre in place of a watch factory Slava . . . .	Bank Globex	n/a

Source: DTZ

## Prime Residential Property Market

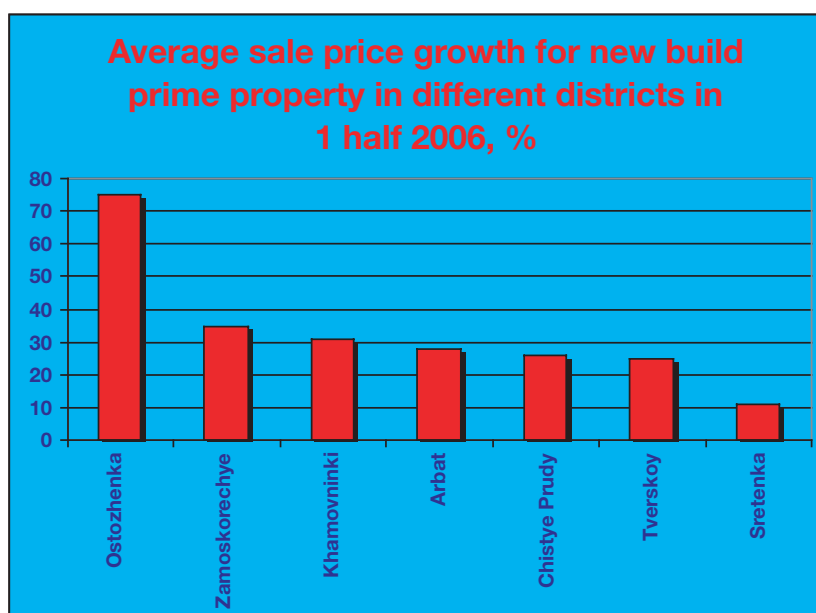
### *Supply and Demand*

Demand for new-build apartments in central Moscow remains strong, both from owner-occupiers and investors. During the first half of 2006, the supply of residential developments in central Moscow was reported as being approximately 20 percent lower than the corresponding period of 2005. The total number of apartments under construction was in the order of 3,000, equating to approximately 900,000 square metres.

Reduction in supply of prime residential properties in Moscow has resulted in price increases. While there is no firm evidence of actual sale levels, developers’ asking prices suggest that new-build apartments have recorded price growth of over 30 percent for the first half of 2006. Price increases in the secondary market are also reportedly experiencing significant growth, although lower than that for new-build apartments, at approximately 20–25 percent for the first six months of 2006.

### *Price levels*

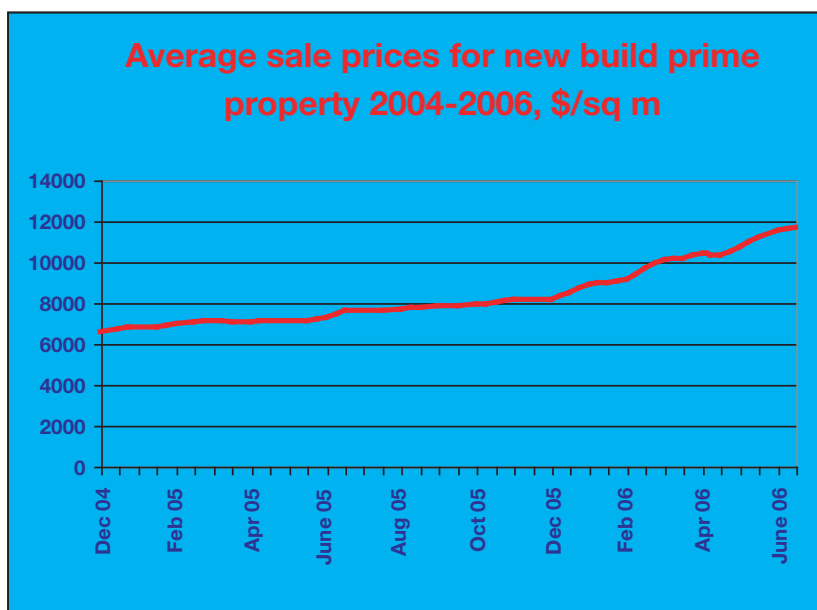
The following graph illustrates average sale price growth for new-build prime property in certain Moscow districts between January—June 2006.



Source: DTZ

At the prime end of the market within the Ostozhenka area (the Golden Mile), asking price growth has been greatest. Average asking price levels in the first half of 2006 were approximately US\$22,500 per square metre, with a maximum fixed asking price reported at US\$37,000 per square metre. In addition, underground parking spaces in central Moscow can command prices of in excess of \$100,000 per space.

The following graph illustrates average sale price growth for new-build prime property in Moscow between 2004–2006.

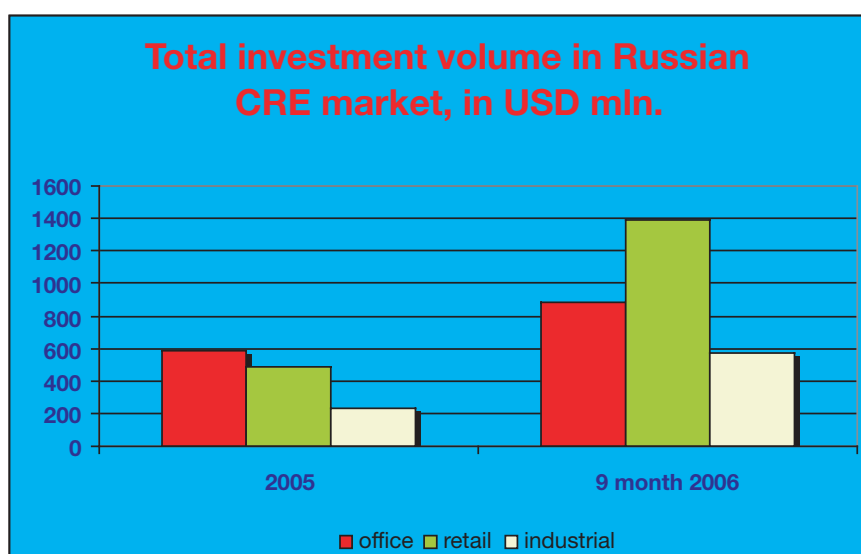


Source: DTZ

Anecdotal evidence suggests that apartments in well-located developments are likely to pre-sell prior to completion. Deposits paid by purchasers are often used by developers to fund construction, thus reducing the need to secure development finance. In general, the mortgage market in Russia remains immature, but market commentators suggest that in the primary market, between 20 – 30 percent of apartment purchases are now financed with mortgage debt.

### The Moscow Investment Market

The following graph illustrates recent investment in the Russian commercial real estate market.



Source: DTZ



**PART V**  
**INDUSTRY CONSULTANT'S REPORT**

The following is the full text of a report received from the Industry Consultant prepared for the Group in the context of Admission.



The Directors  
R.G.I. INTERNATIONAL Limited (the “Company”)  
Frances House  
Sir William Place  
St Peter Port  
Guernsey GY1 4HQ

and

KPMG Corporate Finance, a division of KPMG LLP  
8 Salisbury Square London, EC4A 8BB  
United Kingdom

and

Morgan Stanley Securities Limited,  
25 Cabot Square  
Canary Wharf, London, E14 4QA  
United Kingdom

6 December 2006

Dear Sirs

**R.G.I. INTERNATIONAL LIMITED—VALUATION OF 6 DEVELOPMENTS IN MOSCOW IN CONNECTION WITH PROPOSED ADMISSION TO AIM**

In accordance with your instructions dated 31 October 2006, we have pleasure in reporting to you as follows:

**1. SCOPE OF INSTRUCTIONS**

We, OOO “DTZ Debenham Zadelhoff Limited”, have prepared a Market Valuation for each Property (as defined below) in accordance with the terms set out in this Valuation Report and its Appendices.

The properties that are the subject of this Valuation Report, each a “Property” and together the “Properties” are listed as follows:

SCHEDULE 1—Properties in the Course of Development

“Business Centre”, Butikovsky Lane 15, Moscow (the “Butikovsky Development”)

SCHEDULE 2—Properties Held for Development

“Shopping centre”, 15/1, Tsvetnoy Boulevard, Moscow (the “Tsvetnoy Development”)

“Business and retail centre”, 70, Zemlianoy Street, Moscow (the “Zemlianoy Development”)

Residential “TownHouse”, 37/7, Ostozhenka Street, Moscow (the “Ostozhenka Development”)

“Residential Development with ancillary Offices,” Khilkov Lane, 3, Moscow (the “Khilkov Development”)

### SCHEDULE 3—Pipeline Properties

“Mixed Use Development”, 5-13 Nizhny Tagansky, Moscow (the “Taganka Development”)

We have been instructed to prepare this Valuation Report for inclusion in an Admission Document to be prepared concerning the proposed offer of Ordinary Shares in the Company and the proposed admission of the Company to trading on the AIM, a market operated by the London Stock Exchange plc (“AIM”), together referred to as “Admission”.

The effective date of each valuation is 1 October 2006.

We confirm that the valuations contained in this Valuation Report have been made in accordance with the appropriate sections of the Practice Statements and Guidance Notes contained within the RICS Appraisal and Valuation Manual (also known as the “Red Book”), issued by the Royal Institution of Chartered Surveyors (the “RICS”) and that such valuations have been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation. Although this is a UK basis for valuation, it is internationally accepted as a basis of arriving at the valuation of real estate.

We confirm that this Valuation Report is a Regulated Purpose Valuation as defined in the Red Book.

In accordance with RICS guidelines, we confirm that DTZ has had no historic or ongoing involvement with the Company. The Company has confirmed this. We also confirm that for the purposes of the AIM rules issued by the London Stock Exchange plc, DTZ has no interest (whether material or otherwise) in the Company.

## **2. BASIS OF VALUATION**

Our opinion of the Market Value of each Property has been primarily derived using comparable recent market transactions on arm’s length terms.

In accordance with the Company’s instructions, we have undertaken our valuations on the following basis:

### **a. Market Value (as defined below)**

The valuations contained in this Valuation Report are predicated on the assumption that the ground lease relating to each property, to the extent that such leases currently exist, can be extended, effectively in perpetuity, on similar terms to the existing leases. In addition, as land leases are effectively non-transferable in Moscow, we have assumed that each lease (or leases) relating to a property is held by a special purpose vehicle (“SPV”), and that the shares in each SPV can be sold. In preparing our valuation on these bases, it is necessary for us to prepare valuations based upon “Special Assumptions”. A Special Assumption is referred to in the Glossary in the Red Book as an *Assumption that either:*

- *requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or*
- *is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances.*

In the circumstances of this instruction, we consider the two Special Assumptions set out above may be regarded as realistic, relevant and valid.

Our valuation is subject to our standard valuation terms and conditions and Assumptions which are included in this Valuation Report in Appendices I and II. Where appropriate, the Company has confirmed that our Assumptions (as set out in Appendix II) are correct so far as they are aware. In the event that any of our Assumptions prove to be incorrect, the valuations contained in this Valuation Report should be reviewed and modified as required.

Each Property is defined into one of three distinct categories: (a) properties in the course of development, or (b) properties held for future development, or (c) pipeline properties and each has been valued in accordance with the requirements of the Red Book on the basis of “Market Value”. This is defined in the Red Book as:

*“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

### 3. TENURE AND TENANCIES

We have had access to copies of the title deeds of land and buildings and have based our valuation upon these documents. We have also assumed that no other documents exist which may invalidate or otherwise weaken the strength of these documents. As at 1 October 2006, the date of valuation, there were no concluded occupational leases over any of the subject developments, other than 6 short term leases (expire 30 November 2006) over the existing building at the Ostozhenka Development. In assessing gross development values of the completed commercial elements of the relevant property, we have assumed that the properties will be let on 5 year 'triple net' leases. A lease drawn on triple net terms means that tenants are responsible for repairs, service charge and insurance.

We have valued a 100% share of the tenure stated in each property as if each property was held entirely by the Company as at the valuation date. We have not made any adjustment to value which may be appropriate when considering fractional ownership. We would caution that where the Company has a fractional entitlement to revenues from the sale / lease of properties, the Company may have a higher proportional (typically 100%) liability of the construction costs. This is particularly the case where the Company has an obligation to provide a share of the completed development to the Moscow City authorities.

Certain of the Properties are held leasehold on ground leases from Moscow City Authorities. The standard terms are that rents are reviewed annually (upwards or downwards) in accordance with a city-wide formula that is set by Moscow City authorities.

It should be noted that land leases are effectively non-transferable in Moscow. As each lease is however held by an SPV, we therefore value each lease on the Special Assumption that the shares in each such SPV can be sold and, that no other assets or liabilities are held by that SPV that might affect the ability to sell the shares.

Whilst in Moscow the lessee of a ground lease has a priority right to renew the lease upon expiry, on the same terms and conditions, the effectiveness of this right remains largely untested in the market. Our valuation is predicated on the Special Assumption that the ground lease at each property can be extended, effectively in perpetuity, on similar terms to the existing leases.

Whilst the leases provide a 'use designation' of the land, the lessee is still required to obtain from the Moscow City authorities a Project (i.e. design documentation) which confirms the architectural, planning, engineering and other requirements of development. Where a Property is either "*currently in the course of development*", "*held for future development*" or a "*pipeline property*" and where the considered development scheme differs from that anticipated by the Project (or where no Project exists), our valuation assumes that the required variation to the landlord's (i.e. the Moscow City authorities) permission will be forthcoming without material cost or delay.

In the event that a lessee (i.e. a developer) has not completed development by any completion date stipulated in the lease, the rights to complete the development could be delayed or lost entirely. Similarly, where development has not commenced by the end date of the lease, the Moscow Government could decline to renew the lease on the grounds that the land is not used in accordance with its designation. Accordingly there is a risk that where Projects or permissions to start construction works are not in place, the Moscow Government could rescind the grant of the lease and in turn prevent the use of land in accordance with its designation, providing grounds for cancellation/non-renewal of the land lease. For the purposes of this valuation, we have made the assumption that no such delay or prevention will occur and, if necessary, short term leases will be extended/renewed by the Moscow Government to facilitate the deferred commencement/completion of construction by the Company.

Once the lessee of the land lease develops the land, the ownership of the buildings upon the land effectively ensures a perpetual right to occupy the land irrespective of the existence or otherwise of a ground lease.

Unless disclosed to us to the contrary and recorded in the Appendices, each valuation is on the basis that:

- a. the relevant Property possesses a good and marketable title (albeit in the case of land leases through the sale of shares of the lessee company), free from any unusually onerous restrictions, covenants or other encumbrances;

- b. where the interest held in the relevant Property is leasehold, there are no unreasonable or unusual clauses which would affect value and no unusual restrictions or conditions governing the assignment or disposal of the interest;
- c. leases to which the relevant Property may be subject are on standard market terms, and contain no unusual or onerous provisions or covenants which would affect value;
- d. all notices have been served validly and within appropriate time limits;
- e. the property excludes any mineral rights; and
- f. vacant possession can be given for all accommodation which is not leased. In the case of the Khilkov Development, we understand there are a number of owner occupiers. Our valuation assumes that vacant possession can be obtained to the owner occupied property at the Khilkov Development prior to the proposed construction start date of late September 2007.

We have been provided with estimations of land lease rents payable by the Company on completion of the subject developments by the Company. We confirm that where appropriate, land lease rents have been deducted in our Market Valuations and opinions of Market Valuation on Completion. We would caution that the land lease rents are estimates, and as such we reserve the right to reappraise our valuations in the event that the finalised land lease rents differ materially from those currently quoted. It is our opinion that the Company's land rent estimates appear reasonable.

#### **4. NET ANNUAL RENT**

Because none of the subject development Properties are leased to tenants on the date of Valuation, the "net annual rent" for each Property, where relevant, is referred to in the appended Schedules as the Estimated Market Rented Value on Completion. For the purposes of this exercise, we have defined "Net Annual Rent" as:

*"the current income or income estimated by the valuer:*

- (i) ignoring special receipts or deductions arising from the property;*
- (ii) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and*
- (iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent".*

#### **5. TOWN PLANNING**

We have not performed searches of any sort, but have generally relied on guidelines provided under the Moscow City 2020 structure plan, information provided by the Company and the Project documentation (where in existence) in respect of each of the Properties.

The planning and approvals process in Moscow is extremely bureaucratic and fraught with uncertainty. A number of preliminary planning approvals are required in order to receive a land lease and following the granting of the lease, it is necessary to obtain the approval of a "Project" (i.e. design documentation) through a department of the City of Moscow. Following these approvals, confirmation of technical conditions from the main utility providers, fire, health and safety, environmental protection and sanitary departments of the City of Moscow is required. The "Project" provides the basis upon which a formal planning approval may be sought and outlines the necessary contributions and technical requirements of the utility providers.

We have not been provided with Project documentation for any of the subject development sites and accordingly make what we consider to be reasonable provisions within our calculations for the time taken to 'receive' approval of the Project, and the likely costs to be incurred / contributions which maybe payable to the utility providers. We would caution that these are estimates only and actual payments may differ from these estimates.

Where a property is held for development or is subject to the granting of a land lease, and at the date of this valuation the terms of the Project are not finalised, our valuation takes into account any additional reasonable risks of delay and cost in receiving the Project. We have assumed that there are no

unforeseeable circumstances that would cause additional cost or delay in excess of those generally experienced.

Each valuation has been prepared on the basis that the relevant Property has been built either prior to planning control or in accordance with a valid planning permission and is being occupied and used without any breach of planning or building regulations.

Except where stated otherwise, each valuation has assumed that each Property is not affected by proposals for road widening, compulsory purchase, planning inquiry, or archaeological investigation.

It is stressed that under Russian law, the construction of buildings and other premises may only be carried out based upon an approved Project, and after all the appropriate permissions are obtained. The scope of necessary approvals and documentation required depends on the type of work to be carried out.

In all developments except the Butikovsky Development, each valuation assumes that all required planning permission consents will be received within a normally acceptable timescale and that there are no issues which would materially delay the issuance of the required consent, or have a material effect on value or marketability.

Although where appropriate we have considered the Company's development plan for each Property, each valuation reflects our opinion of an appropriate development that could reasonably be expected to form the basis of an offer for a property by a third party. Therefore our valuations do not necessarily reflect the Company's intended investment/development programme.

## **6. STRUCTURE**

We have neither carried out a structural survey of each Property, nor tested any services or other plant or machinery. We are therefore unable to give any opinion on the condition of the structure or services at any Property. Each valuation takes into account any information supplied to us and any defects noted during our inspection, but otherwise are on the basis that there are no latent defects, wants of repair or other matters which would materially affect each valuation.

We have not inspected those parts of each Property which are covered, unexposed or inaccessible and each valuation is on the basis that they are in good repair and condition.

We have not investigated the presence or absence of High Alumina Cement, Calcium Chloride, Asbestos and other deleterious materials. In the absence of information to the contrary, each valuation is on the basis that no hazardous or suspect materials or techniques have been used in the construction of any property.

## **7. SITE AND CONTAMINATION**

We have not investigated ground conditions/stability and each valuation assumes that buildings that have been constructed, and will be constructed, have made, or will have, appropriate regard to existing ground conditions. Where the relevant Property has development potential, our valuation is made on the basis that there are no adverse ground conditions which would affect building costs. Moreover, our valuation assumes that the underground parking levels will be capable of development in the case of the Taganka Development. We are aware that there are underground metro lines in close vicinity of the site. Should underground levels not be physically possible, this will call the financial viability of the development proposals into question.

Where the Company has supplied us with a building cost estimate, we have relied on it being based on complete information regarding existing ground conditions. We have considered the Company's construction estimates in the light of typical market norms.

We have not carried out any investigations or tests, nor been supplied with any information from the Company or from any relevant expert that determines the presence or otherwise of contamination (including any ground water). Accordingly, our valuation has been prepared on the basis that there are no such matters that would materially affect our valuation.

## **8. PLANT AND MACHINERY**

Process-related plant/machinery and tenants' fixtures/trade fittings have been excluded from each valuation.



## **9. INSPECTIONS, AREAS AND DIMENSIONS**

We have inspected each existing Property internally, and externally from ground level and each development site externally from ground level on 18 April 2006 and 28 September 2006. The buildings currently occupying any of the sites are not the Company's intended developments and will be demolished to facilitate redevelopment. No measured surveys have been carried out by DTZ and we have relied entirely on the site and floor areas and dimensions provided to us by the Company. We have assumed that these are correct and calculated on the appropriate basis, as normally adopted by the local property market. In the event that developable areas quoted herein differ for any reason from those ultimately constructed, we reserve the right to reappraise our valuation.

In relation to all the land sites, with the exception of the site at the Butikovsky Development, it was not possible to accurately determine the extent of the site boundaries as these were not clearly shown on site.

## **10. SOURCES OF INFORMATION**

All formal information relating to a Property has been provided to DTZ by the Company. Each valuation is based on the information which has been supplied to DTZ by the Company or which we have obtained in response to our enquiries. We have relied on this information as being correct and complete and there being no undisclosed matters which would affect each valuation.

## **11. GENERAL PRINCIPLES**

In respect of tenants' covenants, whilst we have taken into account market information of which we are aware, we have not received a formal report on the financial status of any prospective tenant. We have assumed that all leased space will be let at market levels.

Where we have reflected development potential in a valuation, we have assumed that all structures at such Property will be completed using good quality materials and first class workmanship and that the relevant Properties will be let to tenants who satisfy the Company's proposed tenant mix policy and are of reasonable covenant status and on typical market lease terms.

Allowances have been made for legal and agents' expenses of realisation arising from a sale or development of each Property.

None of the Valuations contained in this Valuation Report makes any allowance either for the cost of transferring sale proceeds internationally or elsewhere within the Company, or for any restrictions on so doing.

No account has been taken of any leases granted between subsidiaries of the Company, and no allowance has been made for the existence of a mortgage, or similar financial encumbrance on or over any Property. Where a grant may have been received, no allowance has been made in our valuations for any requirement to repay the grant.

The Valuations have taken account of (1) certain (assumed) costs regarding payments to be made to the City of Moscow authorities for construction and (2) certain (assumed) costs regarding the payment required to purchase the share the City of Moscow authorities may have in a development (via an investment contract). Such levels of assumed payments have been provided to us by the Company under the title of "Municipal Share".

A purchaser of a Property is likely to want to obtain further advice or verification relating to certain matters referred to above before proceeding with a purchase.

The valuation of each property has been undertaken by Mr. Chris Dryden BLE MA MRICS and Miss Aleksandra Nogtich, licensed valuer.

Each valuation assumes that there is an active letting and funding market.

## **12. SPECIAL ASSUMPTIONS, RESERVATIONS AND DEPARTURES**

DTZ can confirm that each valuation is not made on the basis of any Departures from the Practice Statements contained in the Red Book unless specifically stated herein. Subject to the general limitations of our inspections and sources of information set out above, each valuation is not subject to any specific reservations in relation to restricted information or property inspection.

### 13. DISCLOSURE

The member of The Royal Institution of Chartered Surveyors who is named in Section 11 has not previously been a signatory to the valuations provided to the Company for the same purposes as this Valuation Report.

DTZ have not previously carried out these valuations for the same purpose as this Valuation Report on behalf of the Company.

### 14. DISCLOSURES REQUIRED UNDER THE PROVISIONS OF UKPS 5.4

OOO “DTZ Debenhham Zadelhoff Limited” is an independent company being part of the DTZ Zadelhoff Tie Leung Central and Eastern European Network. In relation to the preceding financial year the proportion of the total fees payable to DTZ by the Company was less than 5% of DTZ Debenhham Zadelhoff Limited’s turnover, and we anticipate that it will remain less than 5% in the financial year to 31<sup>st</sup> December 2006.

Although this Valuation Report should be read in conjunction with all the information set out in the Admission Document, we would point out that we have made various assumptions as to tenure, letting and town planning, together with the condition and repair of buildings, including ground and water contamination. These assumptions, together with the assumptions set out in the proceeding paragraphs, are set out in Appendix II below.

### 15. AGGREGATE VALUATION

Subject to the foregoing, and based on current values as at 1 October 2006, DTZ are of the opinion that the aggregate of the Market Value of each 100% share of the leasehold rights to each development in which the Company has an interest (albeit indirectly through the shares of special purpose vehicles), as set out in the Schedules, and on the basis of the “Special Assumptions” as described above is the total sum of:

US\$ 370,357,000

This sum may be apportioned as follows:

	<b>Leasehold</b>
(i) Properties in the course of development . . . . .	US\$ 22,954,000
(ii) Properties held for future development . . . . .	US\$255,406,000
(iii) Pipeline properties . . . . .	US\$ 91,997,000
Total . . . . .	US\$370,357,000

And, for each Property as follows:

<b>Properties</b>	<b>Market value in existing state, excl. VAT</b>	<b>Value upon completion, excl. VAT</b>
The Butikovsky Development . . . . .	US\$ 22,954,000	US\$ 38,264,000
The Khilkov Development . . . . .	US\$156,818,000	US\$325,000,000
The Tsvetnoy Development . . . . .	US\$ 64,580,000	US\$185,575,000
The Zemlianoy Development . . . . .	US\$ 20,762,000	US\$ 67,190,000
The Ostozhenka Development . . . . .	US\$ 13,246,000	US\$ 27,580,000
<b>Pipeline properties</b>		
The Taganka Development . . . . .	US\$ 91,997,000	US\$325,695,000

The valuation stated above, of US\$370,357,000, represents the aggregate of the current values attributable to each of the individual properties and should not be regarded as a valuation of the portfolio as a whole in the context of a single sale. We set out the value ascribed to each Property in the Schedules. DTZ has based its valuation of the Properties on assumptions as to the expected highest and best use of each property by a typical local developer in Russia, considering the spectrum of available uses. As a result, the description of each of the developments, and the accompanying valuation, reflects our reasonable expectations as to what a typical Russia developer may build on the property, as well as the amount that such a developer would likely pay for the relevant Property in its current state. Our valuations are not based on the Company’s planned use of the properties, and we do not make any judgment as to whether

the Company may achieve a higher or better use of such properties as a result of its experience, expertise, commercial network, market insight and any advantage of scale.

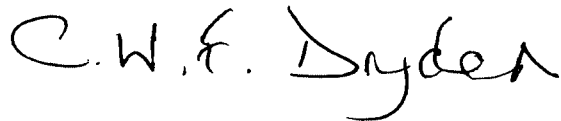
We have considered an appropriate development commencement date and development period for each Property in isolation, based on each Property's particular circumstances. Each valuation does not consider any effect of multiple properties being developed concurrently (e.g. any resource, expense or savings issues if undertaken by a single developer), or released to the market (occupation or investment) together.

For those *Properties held for Development* (as set out in Schedule 1) and *Properties in the Course of Development* (as set out in Schedule 2) and *Pipeline Properties* (as set out in Schedule 3), that will be leased upon completion, the schedules present our opinion of Market Value of the land plots in respect of each of the relevant Properties, *Market Value assuming built and fully occupied* and our opinion of *Market Rental Value per annum upon completion*.

## **16. CONFIDENTIALITY**

The contents of this Valuation Report, together with its Appendices and Schedules may be used only for specific purpose to which they refer and we hereby give our consent for this Valuation Report to be included within the Admission Document for that purpose. Consequently, and in accordance with current practice, no responsibility is accepted to any party in respect of the whole or any part of their contents other than in connection with the purpose of this Valuation Report. Prior to the Valuation Report being disclosed orally or otherwise to a third party, DTZ's written approval as to the form and context of such publication or disclosure must first be obtained. Such publication or disclosure will not be permitted unless, where relevant, it incorporates the Special Assumptions referred to herein. For the avoidance of doubt such approval is required whether or not OOO "DTZ Debenham Zadelhoff Limited" are referred to by name and whether or not the contents of our Valuation Report are combined with others.

Yours faithfully

A handwritten signature in black ink, reading "C.W.F. Dryden". The signature is written in a cursive, flowing style.

**CHRIS DRYDEN**  
**Chartered Surveyor**  
**Director**  
**For and on behalf of**  
**DTZ Debenham Zadelhoff Limited**

## APPENDICES

### APPENDIX I:

#### GENERAL PRINCIPLES ADOPTED IN THE PREPARATION OF VALUATIONS AND REPORTS

We list below the general principles upon which valuations and reports are normally prepared, which shall apply unless specifically mentioned otherwise in the foregoing Valuation Report.

##### *RICS Appraisal and Valuation Standards*

All valuations are carried out in accordance with the Red Book and are undertaken by appropriately qualified valuers as defined therein.

##### *Valuation Basis*

All valuations are made on the appropriate basis as agreed with the instructing company in accordance with the provisions and definitions of the Red Book unless otherwise specifically agreed and stated. The specific basis of valuation adopted in relation to a particular instruction and the definition thereof is detailed in this Valuation Report.

No allowances are made in our valuations for any expenses of realisation or to reflect the balance of any outstanding mortgages, either in respect of capital or interest accrued thereon.

It should be noted that our valuations are based upon the facts and evidence available at the date of valuation. It is therefore recommended that valuations be periodically reviewed.

##### *Information Supplied*

We accept as being complete and correct the information provided to us by the sources detailed in our Valuation Report, relating to items such as tenure, tenancies, tenants' improvements and other relevant matters. We have relied on this information and on there being no undisclosed matters which would affect our valuation.

##### *Documentation and Title*

We review documents of title and development permission as provided to us by the instructing company in so far as appropriate and necessary to assess the values reported herein. You should however appreciate that we are not legal advisers and, as such, we recommend that reliance should not be placed on our interpretation thereof without verification by your legal advisers.

Unless notified to the contrary, we assume that each property has a good and marketable title (albeit where necessary through the sale of company shares), free from any unusually onerous restrictions, covenants or other encumbrances, and is free from any pending litigation. We further assume that all documentation is satisfactorily drawn and that there are no unusual or onerous clauses, restrictions, easements, covenants or other outgoings, which would adversely affect the value of the relevant interest(s).

##### *Inspections*

We undertake such inspections and conduct investigations as are, in our opinion, correct in our professional judgment, appropriate and possible in the particular circumstances. External inspections are carried out from ground level only.

##### *Structural surveys*

Unless expressly instructed, we do not undertake structural surveys, nor do we inspect those parts that are covered, unexposed or inaccessible, or test any of the electrical, heating, or other services. Any readily apparent defects or items of disrepair noted during our inspection will be reflected in our valuations, but no assurance is given that any property is free from defect. We assume that those parts which have not been inspected would not reveal material defects which would cause us to alter our report and valuations.

Where we have been supplied with information on the condition of the structure and services our valuation reflects this. Otherwise, our valuation is on the basis that there are no latent defects, wants of repair or other matters which would materially affect our valuation.

### *Hazardous & deleterious materials*

Unless expressly instructed, we do not carry out investigations to ascertain whether any building has been constructed or altered using deleterious materials or methods. Unless specifically notified, our valuations assume that no such materials or methods have been used. Common examples include high alumina cement concrete, calcium chloride, asbestos and wood wool used as permanent shuttering. It should be noted that historically there has been widespread use of asbestos in buildings constructed in Moscow.

### *Site Conditions*

Unless specifically requested, we do not carry out investigations on site in order to determine the suitability of ground conditions and services, nor do we undertake environmental, archaeological, or geo-technical surveys. Unless notified to the contrary, our valuations are on the basis that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.

### *Contamination*

In preparing our valuations we assume that no contaminative or potentially contaminative use is, or has been, carried out at the property.

Unless specifically instructed, we do not undertake any investigation into the past or present uses of either the property or any adjoining or nearby land, to establish whether there is any potential for contamination from these uses and assume that none exist. However, should it subsequently be established that such contamination exists at any of the properties or on any adjoining land or that any premises have been or are being put to contaminative use, this may be found to have a detrimental effect on the value reported.

In preparing our valuations we have assumed that all necessary consents and authorisations for the use of the property and the processes carried out at the property are in existence, will continue to subsist and are not subject to any onerous conditions.

### *High voltage electricity supply apparatus*

Where there is high voltage electrical supply equipment close to a property, it should be noted that the possible effects of electromagnetic fields on health have been the subject of media coverage. Public perception may, therefore, affect marketability and future value of the property.

Our valuations include items usually regarded as forming part of the building and comprising landlord's fixtures, such as boilers, heating, lighting, sprinklers and ventilation systems but generally exclude operational plant and machinery and those fixtures and fittings normally considered to be the property of the tenant.

### *Mortgages*

No allowance is made for the existence of any mortgage, or similar financial encumbrance on or over the property and no account taken of any leases between subsidiaries.

### *Government Grants*

All valuations are given without any adjustment for capital based Government grants received or potentially receivable at the date of valuation.

### *Special Purchaser Value*

Unless otherwise stated, our valuations do not reflect any element of marriage value or special purchaser value which could possibly be realised by a merger of interests or by a sale to an owner occupier of an adjoining property, other than as would be reflected in offers made in the open market by prospective purchasers apart from the purchaser with a special interest.

In the valuation of portfolios, each property is valued separately and not as part of the portfolio. Accordingly, no allowance, either positive or negative, is made in the aggregate value reported to reflect the possibility of the whole or part of the portfolio being put on the market at any one time.

### *Overseas Properties*

Our valuations of overseas properties will be reported in United States Dollars (US\$), this being the market norm. No allowance has been made for the transfer of funds outside Russia.



## **APPENDIX II:**

### **GLOBAL ASSUMPTIONS**

For those Properties “held for development” or “in the course of development”, some general assumptions have been made in developing the residual valuations, in addition to the assumptions and conditions above. These are summarised below:

#### *Purchaser’s Acquisition Cost*

Acquisition costs are included in the calculation where appropriate.

#### *Development Proposals*

It has been assumed where project documentation exists, any development would conform to the overall size as provided to us unless it is reasonable to assume that development could take place in some other form.

#### *Utilities & Road Improvement*

In Russia, the cost of providing utilities and executing necessary road improvements can vary widely. Where utilities need to be provided or road works executed it has been assumed that the cost estimates supplied to us are accurate. Where these have not been provided, we have taken estimates based upon our experience in this market.

#### *Construction Phasing*

All projects have been assumed to be constructed in one phase.

#### *Construction Costs*

Construction costs supplied by the Company have been utilised in our development appraisals, benchmarked against standard rates in the market. Rates used are assumed to equal what a third party developer/purchaser would be expected to incur in the course of the development of each project.

#### *Construction Contract*

Construction payments are assumed to follow S curve distribution.

#### *Permit & Contribution Costs*

Where there are outstanding permit costs or contributions payable to the City of Moscow, these have been assessed in line with the forecasts as supplied by the Company. Where we have made our own estimates, these have been based upon our general experience in this market.

In order to assess the capital value of a completed development, DTZ assumed that a property is to be held upon completion for a period until the net income stabilises, and that the property is then sold. This is a valuation technique and does not necessarily represent the intention of the owner in each circumstance.

#### *Delivery Condition and Pricing*

The properties include ongoing developments or properties held for development of residential apartment complexes.

In Moscow, apartments are delivered in a shell and core condition and are typically exposed to pre-sales from an early stage. It is common practice to value apartments on a square metre basis with apartments at higher levels in a development typically commanding higher prices as opposed to the European norm of values based on an apartment size / room number basis.

Office premises in Moscow are typically delivered in a finished open plan condition with retail space being delivered in a shell and core condition. All commercial space is typically leased or sold on a price reflecting a square metre value basis.

### *Returns*

Comparable rental rates for commercial office space have been adopted in our cash flow valuation. Sale prices for residential developments have been assessed on current market prices.

These figures are based on research carried out by DTZ and market information. In respect of commercial rents they are exclusive of operating expenses and VAT.

Our opinion of yield is based in part on comparable sales and the general market sentiment that the increasing amount of investors seeking to purchase investment product in the region will have a downward pressure on returns over time.

### *Review/Renewal Period*

This is the length of the initial leases. The rents for the initial leases remain fixed for their entire term and the rent during this period will depend upon the prevailing market rental rate in the year of completion. The length of initial leases has been assumed at 5 years.

### *Vacancy Rate*

Void periods have been considered in relation to each development and depend upon the property class and the relative merits of each anticipated project.

### *Operating Expenses*

For commercial properties these are assumed to be paid by the tenant at cost, and they are therefore cash flow and VAT neutral and they are not included in the valuation conducted by DTZ. An element of the non-recoverable service charges are included to reflect void areas. For residential properties it is also assumed that operating expenses will be passed through to residents in the form of a service charge or similar, which will be deemed to operate without surplus or deficit, that is “cash inflow equals cash outflow”.

### *Debt Assumptions*

There are wide variations as to the financing terms available in the as yet immature Russian property finance market and it is not therefore possible to apply standard terms. Therefore average yields are used to provide a consistent approach.

### *VAT Rate*

The VAT rate has been taken at the current rate of 18%. The VAT rate is of importance because although in theory VAT in Russia is immediately recoverable from the government, the practice is slightly different. The VAT paid on construction and other development costs is considered a VAT credit account in favour of the landowner. VAT on future rents can be retained and offset against the VAT account until the credit is eliminated. This has a significant effect on cash flow.

It has been assumed that all of the costs in association with the development of each Property will be subject to VAT and also that all of the tenants (where appropriate) will pay VAT. Where applicable, the current VAT credit account has been taken into account depending upon the tenure of the property, that is freehold property sales are subject to VAT, whereas sales of shares in a company are not.

Therefore where a Property is held in an SPV or similar structure, no VAT would be payable on a sale of shares.

### *Agent's & Brokers Fees*

Standard market practice is to use brokers to lease commercial office and warehousing space. Accordingly, agents' letting fees have been accounted for in our valuation of office and warehousing premises. Retail space is however typically leased and residential space is typically sold by developers directly to the operators / public and hence agent's fees will not be incorporated in these elements of the valuation.

### *Taxes*

No account of property tax is included in the Valuations as reported herein.

Address	Description, age and tenure	Terms of existing tenancies/sales	Market value of the land plot, excl. VAT, US\$	Estimated market rental value upon completion, US\$ per annum, excl. VAT and Service Charge	Value upon completion, excl. VAT, US\$
<b>Schedule 1 — Properties in the Course of Construction</b>					
<b>Property I</b> The Butikovsky Development	The planned business center in Butikovsky Pereulok is located c. 40 metres from Prechistsenskaya Embankment. The building will consist of 6 floors and 2 levels of underground parking for up to 97 vehicles. The gross internal area of the subject premises amounts to 8,929 sq. metres with a corresponding site area of c. 0.208 ha. Internally, the accommodation will comprise offices of c. 4,682 sq m plus parking of c. 3,007 sq m. The building will be of reinforced concrete frame, while the foundations are a monolith reinforced concrete platform. Exterior walls will be of brick insulated with Rockwool, with an exterior finish of stone and in the form of leaded aluminum structures. Internally, the ground floor interior lobby will be of natural stone — granite and marble, while interior walls are to be of natural stone and glass. The building will be equipped with two passenger panoramic elevators supplied by KONE. The building will be equipped with all the necessary utilities: space heating, full air conditioning, refrigeration supply, fire and security alarm, automatic sprinkler fire extinguishing plus automated fire fighting equipment.	The scheme is in the early stages of construction, and no pre-lettings have yet been made.	22,954,000	4,321,000	38,264,000
<b>Schedule 2 — Properties Held for Development</b>					
<b>Property II</b> The Ostozhenka Development	<p>The building plot allocated for construction of a private residential townhouse is located in the Central Administrative Prefecture (CAP) of Moscow, at the intersection of Ostozhenka ulitsa and Khilkov Pereulok. The site is located in an area with special construction requirements (conservation area), to ensure that new buildings blend in with existing structures. The front garden, which faces Khilkov Pereulok, is landscaped. A large detached house is planned for construction in the heart of the site.</p> <p>There is a complex of buildings dating from the late 19th century near the site, while a five-storey residential house is located to the south. A park adjoins the site to the south-west. A five-storey house is being constructed to the south-east of the subject site.</p> <p>The development will be a replica of the historic building on the site (which will be demolished), and will include a terrace on part of the roof.</p> <p>An entrance ramp to the underground car park will run from Khilkov Pereulok and an entrance from Ostozhenka is also planned. The present landscaping is to be preserved on the site.</p> <p>The projected residential unit comprises two underground floors, two overground floors and attic. The lower underground floor will comprise a car park for 4 spaces, ancillary and technical facilities, plus a home theatre. The upper underground floor will include an entrance hall, swimming pool and winter garden. A drawing-room, dining room, and study will be located at first floor level. Bedrooms are to be on the second floor, while the attics are allocated for a library and a studio.</p> <p>Gross internal area — 1379.37 sq m</p>	The scheme is in the early stages of design, and no pre-sale has yet been agreed.	13, 246,000	N/A	27,580,000

Address	Description, age and tenure	Terms of existing tenancies/sales	Market value of the land plot, excl. VAT, US\$	Estimated market rental value upon completion, US\$ per annum, excl. VAT and Service Charge	Value upon completion, excl. VAT, US\$
<b>Property III</b> The Tsvetnoy Development	<p>The proposed retail centre is located in the centre of Moscow at Tsvetnoy Boulevard, 15. Tsvetnoy Boulevard runs north to south and its carriageways are separated by park land. It is less congested than other streets in the centre of Moscow. The metro station «Tsvetnoy Boulevard» is located within a 1 minute walk from the project. A Circus, a Moscow landmark, is situated nearby.</p> <p>The retail centre will be an octangular building, planned over 11 levels — ground plus 6 upper floors, plus four underground levels. The total gross internal area of the building is expected to be c.38,653 sq m.</p> <p>Internally, the subjects will comprise 6 floors of rentable retail accommodation, extending to c.14,074 sq m, plus a 7th floor of c.726 sq m which will provide office accommodation. There will be 4 under ground floors for parking extending to c.14,327 sq m.</p>	The scheme is in the early stages of design, and no pre-lettings have yet been agreed.	64,580, 000	17,185,000	185,575,000
<b>Property IV</b> The Zemlianoy Development	<p>Located adjacent to the site at Taganka, this is a prominent development site to the south east of Moscow city centre, forming part of the Garden Ring. The underground metro tunnels Kurskaya and Taganskaya run close to the site with the nearest metro station “Taganskaya” being within 250 metres.</p> <p>On completion, the development will comprise a mixed use scheme comprising offices, retail units and associated parking. Accommodation, planned over 12 levels, (three of which will be underground) will be as follows:-</p> <p>Gross Internal Area: 10,491 sq m</p> <p>Offices: 7,106 sq m</p> <p>Retail: 500 sq m</p> <p>Parking: 2,688 sq m</p>	The scheme is in the early stages of design, and no pre-lettings have yet been agreed.	20,762,000	6,547,900	67,190,000

Address	Description, age and tenure	Terms of existing tenancies/sales	Market value of the land plot, excl. VAT, US\$	Estimated market rental value upon completion, US\$ per annum, excl. VAT and Service Charge	Value upon completion, excl. VAT, US\$
<b>Property V</b> The Khilkov Development	<p>The development site at 3 Khilkov Lane is one of the prime residential locations in Moscow. The site is located close to the main tourist attractions of Moscow: 850 m from the temple of Christ the Saviour, 1000 m from Gorky Park and 1500 m from the Kremlin. The site has excellent transport links — it is only 500 m from the Garden Ring and Park Culture circle metro station. The closest railway station, Kievskaya, is 3 km from the site. Khilkov Lane is a cross-road to Ostozhenka (called the Golden Mile of Moscow) — the most famous residential street in the city. Currently, the site comprises a small park, sports ground and a 3-4 storey old building which will be demolished as part of the redevelopment. The site has an irregular shape and is surrounded by a school, a newly built Class A business centre called Turchaninov, with a total area of c.17,000 sq m and a residential complex under construction called Osobnyak by Barkly company with a total area of 3,000 sq m. To the front of the site there is a military commissariat 3-storey building. Khilkov Lane runs down to Prechistenskaya embankment where further new build residential and offices schemes are located.</p> <p>The development will involve the construction of an elite residential complex with a gross internal area of 32,000 sq m. The accommodation will be as follows: 14,500 sq m of flats, 8,000 sq m (up to c. 250 places) of parking, plus 500 sq m of offices.</p> <p>At present there is no concept for the building.</p>	The scheme is in the early stages of design, and no pre-sales have yet been agreed.	156,818,000	N/A	325,000,000



Address	Description, age and tenure	Terms of existing tenancies/sales	Market value of the land plot, excl. VAT, US\$	Estimated market rental value upon completion, US\$ per annum, excl. VAT and Service Charge	Value upon completion, excl. VAT, US\$
<b>Property VI</b> The Taganka Development	<b>Schedule 3—Pipeline Properties</b>				
	<p>The proposed mix use scheme at «Moskovskiy teatralniy dom na Taganke» is located in block 332-333 of the Tagansky district, on a site comprising 1.476 ha, and currently consists of 3 buildings:</p> <ul style="list-style-type: none"> <li>• a theatre house on a site of 0.927 ha;</li> <li>• a residential house “Tetris” on a site of 0.40 ha;</li> <li>• an administrative building with a built-in car park on a site of 0.149 ha.</li> </ul> <p>The redevelopment will include the demolition of one of the existing buildings, followed by the construction of three new buildings which will provide an eight storey multifunctional complex with an additional 4 underground levels. The development will be located above the underground metro tunnels between the Kurskaya and Taganskaya metro stations of the Koltsevaya metro line and a spur connecting them with the Kalininskaya metro line. The nearest metro station “Taganskaya” is located within 250 metres from the site. It is our understanding that the redevelopment will include the refurbishment of the theatre, plus the construction of new build offices and retail space. On completion, the subjects will comprise a mixed use scheme including residential apartments, offices, retail shops and parking. In addition, the developers are contractually bound by the Moscow Government to refurbish the theatre on site. The theatre will remain in the ownership and control of the municipal authorities. As such, while we have included the cost of refurbishment of the theatre in our appraisal, no value that may be attributable to the theatre is included in our Valuation. It is planned to build a roadway within the development site, connecting the streets Nizhniy Taganskiy Tupik and Teterenskiy Pereulok. The complex will include up to c. 800 parking spaces, constructed in 4 underground floors. The gross internal area will be approximately 67,955 sq m, of which the accommodation will be as follows:-</p> <p>Apartments: 5,387 sq m  Retail: 17,714 sq m  Offices: 9,085 sq m  Parking: 25,600 sq m  The theatre will extend to 9,016 sq m</p>	The scheme is in the early stages of design, and no pre-lettings have yet been agreed.	91,997,000	27,887,750	325,695,000

PART VI  
ACCOUNTANTS' REPORT AND FINANCIAL INFORMATION



The Directors  
R.G.I. International Limited  
Frances House  
Sir William Place  
St Peter Port  
Guernsey GY1 4HQ

KPMG Corporate Finance, a division of KPMG LLP (the “Nominated Adviser”)  
8 Salisbury Square  
London EC4Y 8BB

7 December 2006

Dear Sirs

**R.G.I. International Limited**

We report on the financial information set out in pages 109 to 134 below. This financial information has been prepared for inclusion in the admission document dated 7 December 2006 (the “**Admission Document**”) of R.G.I. International Limited (the “**Company**”) and together with its subsidiaries (the “**Group**”) on the basis of the accounting policies set out in note 3. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information, and in accordance with International Financial Reporting Standards (“**IFRS**”).

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

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the AIM Rules, consenting to its inclusion in the Admission Document.

**Basis of opinion**

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

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

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United

States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

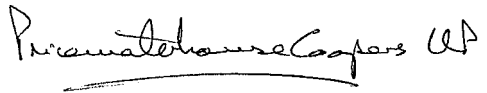
### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the date stated and of its profits, cash flows and changes in equity for the period then ended in accordance with the basis of preparation set out in note 2 to the financial information and in accordance with IFRS as described in note 3.

### **Declaration**

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

Yours faithfully

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP  
Reporting Accountant  
London

**R.G.I. International Limited**  
**Consolidated Balance Sheet**  
(in thousands of US dollars, unless otherwise stated)

	<u>Note</u>	<u>30 June 2006</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property development rights . . . . .	6	83,176
Development licence . . . . .	7	400
Property development expenses . . . . .	8	6,952
Plant and equipment . . . . .	9	30
Other non-current assets . . . . .	10	249
<b>Total non-current assets . . . . .</b>		<b><u>90,807</u></b>
<b>Current assets</b>		
Debtors and prepayments . . . . .	11	73
Cash and cash equivalents . . . . .	12	3,151
<b>Total current assets . . . . .</b>		<b><u>3,224</u></b>
<b>Total assets . . . . .</b>		<b><u>94,031</u></b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings . . . . .	13	6,701
Deferred income tax liability . . . . .	18	20,055
<b>Total non-current liabilities . . . . .</b>		<b><u>26,756</u></b>
<b>Current liabilities</b>		
Borrowings . . . . .	13	3,357
Deferred purchase consideration . . . . .	14	6,228
Trade and other payables . . . . .	15	95
Other taxes payable . . . . .	16	54
<b>Total current liabilities . . . . .</b>		<b><u>9,734</u></b>
<b>Equity</b>		
Share capital . . . . .	17	1
Retained earnings . . . . .		40,822
Translation reserves . . . . .		(24)
<b>Equity attributable to the Company's equity holders . . . . .</b>		<b><u>40,799</u></b>
<b>Minority interest . . . . .</b>		<b><u>16,742</u></b>
<b>Total equity . . . . .</b>		<b><u>57,541</u></b>
<b>Total liabilities and equity . . . . .</b>		<b><u>94,031</u></b>

**R.G.I. International Limited**  
**Consolidated Income Statement**  
(in thousands of US dollars, unless otherwise stated)

	Note	Period from 14 March 2006 to 30 June 2006
Negative goodwill on business combination . . . . .	22	41,463
Consulting and other professional services . . . . .	19	(541)
Travel expenses . . . . .		(77)
Other expenses . . . . .	20	(37)
<b>Operating profit</b> . . . . .		<b>40,808</b>
Exchange gain . . . . .		14
<b>Profit before income tax</b> . . . . .		<b>40,822</b>
Income tax . . . . .	18	—
<b>Profit for the period</b> . . . . .		<b>40,822</b>
<b>Profit is attributable to:</b>		
<b>Equity holders of the Company</b> . . . . .		<b>40,822</b>
<b>Minority interest</b> . . . . .		<b>—</b>
<b>Profit for the period</b> . . . . .		<b>40,822</b>
<b>Basic earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD per share)</b> . . . . .	29	<b>0.81644</b>



**R.G.I. International Limited**  
**Consolidated Cash Flow Statement**  
(in thousands of US dollars, unless otherwise stated)

	<u>Note</u>	<u>Period from 14 March 2006 to 30 June 2006</u>
<b>Net cash outflow from operating activities</b> . . . . .	<b>21</b>	<b><u>(624)</u></b>
<b>Cash flows from investing activities</b>		
Cash and cash equivalents in subsidiaries acquired, net of purchase consideration . . .	22	<u>2,786</u>
<b>Net cash inflow from investing activities</b> . . . . .		<b><u>2,786</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital . . . . .	17	1
Loans received . . . . .	13	1,132
Loans extended . . . . .		<u>(135)</u>
<b>Net cash inflow from financing activities</b> . . . . .		<b><u>998</u></b>
Effect of exchange rate changes on cash and cash equivalents . . . . .		<u>(9)</u>
<b>Net increase in cash and cash equivalents</b> . . . . .		<b><u>3,151</u></b>
<b>Cash and cash equivalents, beginning of the period</b> . . . . .		<b><u>—</u></b>
<b>Cash and cash equivalents, end of the period</b> . . . . .	<b>12</b>	<b><u>3,151</u></b>

**R.G.I. International Limited**  
**Consolidated Statement of Changes in Equity**  
(in thousands of US dollars, unless otherwise stated)

	Note	Attributable to equity holders of the Company				Minority interest	Total Equity
		Share capital	Translation reserves	Retained earnings	Total		
<b>At 14 March 2006</b> . . . . .		—	—	—	—	—	—
Currency translation differences . . . . .		—	(24)	—	(24)	—	(24)
Net income recognised directly in equity . . . . .		—	(24)	—	(24)	—	(24)
Profit for the period . . . . .		—	—	40,822	40,822	—	40,822
Total recognised income for the period .		—	(24)	40,822	40,798	—	40,798
Minority interest on acquisition . . . . .	22	—	—	—	—	16,742	16,742
Issue of share capital . . . . .	17	1	—	—	1	—	1
<b>At 30 June 2006</b> . . . . .		<u>1</u>	<u>(24)</u>	<u>40,822</u>	<u>40,799</u>	<u>16,742</u>	<u>57,541</u>

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements**  
**(in thousands of US dollars, unless otherwise stated)**

**1. The R.G.I. International Limited Group and its Operations**

These financial statements cover the period from 14 March 2006 to 30 June 2006 for R.G.I. International Limited (the “Company”) and its subsidiaries (together referred to as the “Group”).

The Company was incorporated in Guernsey on 14 March 2006 as a limited liability company in accordance with the provisions of the Guernsey Companies Act. As at 30 June 2006, the registered office and business address was Manor Place, St Peter Port, Guernsey, GY1 4EW. As at the date of this report, the registered office and business address was Frances House, Sir William Place, St. Peter Port, Guernsey, GY1 4HQ. The Company’s principal place of business is 6 Khilkov Lane, Moscow, 119034, Russian Federation.

As at 30 June 2006, the Group had 27 employees.

The Group’s immediate parent is D.E.S. Commercial Holdings Limited, a company registered in the British Virgin Islands. As at 30 June 2006, the ultimate controlling party of the Group is Mr Boris Kuzinez.

The principal business activity of the Group is property development and property management in the Russian Federation, with its core business being the development and management of high-end office and retail business and luxury residential properties in central Moscow and the surrounding areas.

The Group consists of the following entities incorporated in Cyprus, where 100% of the share capital and voting rights are held: Elorietta Limited; Toucho Investments Limited; Teruel Investments Limited; Nospelt Limited; Canalet Holding Limited; and Lemoriano Limited. The Group also consists of the following entities incorporated in the Russian Federation, where 100% of the share capital and voting rights are held: LLC Dinas; LLC Ostozhie; LLC Armix and LLC Project Bureau. In addition, as at the balance sheet date, the Company indirectly owned 60% of the share capital and voting rights of Ling Investments Limited and its subsidiary LLC Central Market. As detailed in Note 27, this interest was increased to 100% subsequent to the period end and the Group also acquired 100% of the share capital and voting rights in Yialoka Holdings Limited (a limited company incorporated in Cyprus) along with its wholly-owned subsidiary, LLC Directway Investments.

As at 30 June 2006, the Group was involved in the development of one luxury residential development at 37 Ostozhenka in the Ostozhenka district of Moscow and three office and retail developments at sites located in central Moscow, 15 Tsvetnoy Boulevard, 15 Butikovskiy Lane and 70/1 Zemliany Val Street.

**2. Basis of Preparation**

**Basis of presentation.** These consolidated financial statements are the first consolidated financial statements prepared by the Group. The Group’s year end is 31 December and these consolidated financial statements represent interim financial statements prepared in accordance with IFRS, as adopted by the EU applicable to interim financial reporting, *IAS 34, “Interim financial reporting”*.

The interim consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of financial liabilities at inception to fair value where such liabilities were entered into at rates other than market interest rates, and the valuation at fair value of the assets and liabilities of acquired subsidiaries on their initial recognition date in accordance with *IFRS 3 “Business combinations”*.

The results of the Group are from continuing operations unless otherwise disclosed.

The Directors have the power to amend the financial statements after their issuance.

**Presentation and functional currency.** All amounts in these interim financial statements are presented in thousands of US Dollars (“USD”), unless otherwise stated. As detailed within the significant accounting policies, the functional currency of all the entities in the Group is the Russian Rouble (“RUR”).

**Geographical and segment reporting.** Since the Group is engaged in the provision of similar products and services within a particular economic environment, being subject to similar risks and returns, the Directors

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**2. Basis of Preparation (Continued)**

consider that the Group has only one business segment and geographical focus and accordingly does not present additional business and geographical segment information.

**3. Significant Accounting Policies**

**(a) Consolidation of subsidiaries**

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

**(b) Acquisition of subsidiaries**

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at each exchange transaction represents goodwill. Goodwill acquired in a business combination is initially recognised as an asset and subsequently assessed for impairment annually, or more frequently, if events or changes in circumstances indicate that it might be impaired, in accordance with *IAS 36 "Impairment of Assets"*. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

**(c) Property development rights**

Property development rights represent the rights owned by the Group to either lease land plots, based on land lease contracts entered into with the Moscow City Government ("land use rights") or where an investment contract or co-investment agreement has been entered into with the Moscow City Government providing for the development of a project site ("investment contract").

Land use rights and investment contracts are stated at cost less accumulated amortisation and provision for impairment, where required. The cost of property development rights held by acquired subsidiaries is recorded at fair value as at the date of acquisition of the subsidiary.

Property development rights are amortised using a straight-line method. The period of amortisation for property development rights under land use rights is the remaining term of the land lease contract on acquisition of the rights by the Group. For property development rights held under investment contracts,

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**3. Significant Accounting Policies (Continued)**

the period of amortisation will be over the development and construction stage until the completed property is expected to be registered with the Moscow City Government. From this date, the Group expects to enter into a long term land lease agreement for the completed building.

The amortisation is capitalised as part of property development expenses during the development and construction period.

**(d) Development licences**

Development licences include licences held by an entity in order for it to be authorised to undertake development activities over the period of the licence's validity.

Development licences are stated at cost less amortisation and provision for impairment, where required. The cost of development licences held by the acquired subsidiaries is recorded at fair value as at the date of acquisition of the subsidiary.

Amortisation is applied on a straight-line basis over the period that the Directors believe that the Group will derive benefit from the licence. Licences are generally issued for a period of five years, and licences acquired are amortised over this period, or the remaining period of validity of the licence if shorter. The amortisation of development licenses is included as part of property development expenses allocated to the individual development projects on an annual basis in proportion to the total development costs of each project during that year.

**(e) Property development expenses**

Property development expenses represent capitalised costs directly attributable to the construction of properties, including interest and foreign currency movements on borrowings during the construction period, and other costs associated with the acquisition and development of real estate. Property development expenses are carried at cost less provision for impairment where required and are not depreciated. If any indication of impairment exists, the Directors estimate the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The impairment loss, if any, is recognised in the income statement in order to reduce the carrying amount to the recoverable amount. The cost of property development expenses recorded by the acquired subsidiaries is recorded at fair value as at the date of acquisition of the subsidiary.

Property development expenses related to developments that are to be transferred to investment properties when the properties are completed and available for occupancy and are held for future long term renting or capital appreciation. Upon transfer, the difference between the fair value of the completed property and the previous carrying value is recognised in profit or loss.

**(f) Investment property**

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and buildings. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment property is measured at its fair value, including related transaction costs. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Changes in fair values are recorded in the income statement.



**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**3. Significant Accounting Policies (Continued)**

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

**(g) Inventories**

Where properties are to be sold by the Group on completion, the property development expenses are recorded as inventory at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete the development and selling costs.

Revenue from the sale of such properties is recognised upon the transfer of all significant risk and rewards of ownership when the development is completed.

**(h) Municipal shares in properties under development**

Where the Group enters into an investment contract with the Moscow City Government in order to develop a site, the agreement typically specifies an ownership interest of the Moscow City Government in the completed property, or a specific element of developed site (for example, a cultural centre). In these cases, only the respective ownership right of the Group in the completed development is reflected in any valuation.

Where investment contracts are acquired that provide the Group with only a percentage interest in the completed development, the fair value of the investment contract at the date of acquisition is recorded net of any percentage interest of the Moscow City Government in order to reflect the fair value for the site in its current state.

**(i) Value added tax**

The tax authorities permit the settlement of value added tax ("VAT") on a net basis. The net value added tax related to sales and purchases which have not been settled at the balance sheet date is recognised in the balance sheet and disclosed separately as a liability or as an asset to the extent that Directors expect to recover these amounts. Related cash flows are recorded as part of operating activities in the cash flow statement. Recoverable VAT is carried at cost.

**(j) Advances to contractors**

Other non-current assets include advances to contractors for construction related services. Advances are carried at cost less provision for impairment, where required.

**(k) Plant and equipment**

**Recognition and measurement.** Plant and equipment comprise costs directly attributable to bringing the assets into working condition for their intended use. Plant and equipment of acquired subsidiaries are recognised at fair value as at the acquisition date.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of income in the period in which the disposal occurs.

**Depreciation and amortisation.** Depreciation of assets is calculated on a straight-line basis over their estimated useful life.

	<u>Useful life</u>
Office and computer equipment . . . . .	5 years
Motor vehicles . . . . .	5 years

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**3. Significant Accounting Policies (Continued)**

**Impairment.** At each reporting date, the Directors assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the Directors estimate the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the statement of income.

**(l) Accounts receivable and prepayments**

Accounts receivable are recorded inclusive of VAT, which is payable to the tax authorities. Accounts receivables are carried at amortised cost, net of provisions for impairment, if any. Where there is objective evidence that any part of these accounts receivables is not recoverable in full in accordance with contractual terms, a provision for the unrecoverable amount is recognised. The provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows (excluding impairment losses not yet incurred), discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Prepayments are carried at cost, net of provisions for impairment, if any. The provision is the difference between the carrying amount and the recoverable amount of prepayment.

**(m) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents are items that can be converted into cash within one day. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

**(n) Borrowings**

Borrowings are recognised initially at the fair value of the liability (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings.

Any difference between the fair value of the borrowing at initial recognition and the proceeds received is recognised in accordance with the substance of the transaction, generally to equity if the premium or discount at initial recognition effectively represents a capital transaction with the Company's owner.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, such as properties, are capitalised as part of the cost of the asset. The capitalisation of borrowings costs ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

**(o) Trade and other payables**

Trade payables are stated inclusive of VAT which is reclaimable from the tax authorities upon the later of receipt of goods and services or the payment of the associated payable. Payables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

**(p) Deferred purchase consideration**

Deferred purchase consideration represents liabilities for purchase of subsidiaries recognised at fair value at the acquisition date. These are subsequently measured at amortised cost using the effective interest method. These liabilities do not represent contingent purchase consideration.

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**3. Significant Accounting Policies (Continued)**

**(q) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting date, and are included in the financial statements at their expected net present values using discount rates appropriate to the Group in the economic environment at each balance sheet date.

**(r) Income taxes**

Income taxes have been provided for in the consolidated financial statements in accordance with legislation of Guernsey, Cyprus and the Russian Federation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date that are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**(s) Income and expense recognition**

Income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**(t) Employee benefits**

Employee benefits include short-term employee benefits, such as wages, salaries, short-term compensated absences (such as paid annual leave and paid sick leave) and non-monetary benefits (such as medical care) for current employees.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are accrued when services are provided.

**(u) Foreign currency translation**

The functional currency of each of the Group's entities is the Russian Rouble ("RUR"), which reflects the economic substance of the underlying events and circumstances of the Group's entities. The Group's financial statements have been presented in US Dollars ("USD"), as the Directors believe that this presentation is more appropriate for the users of the financial statements.

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**3. Significant Accounting Policies (Continued)**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, unless they arise on borrowings which are directly related to the cost of construction, in which case they are capitalised as part of property development expenses during the period of construction.

In presenting the consolidated financial statements in US Dollars, the Group translates all assets and liabilities at the closing exchange rate prevailing at the respective balance sheet date. All income and expenses are translated using a basis that approximates the rate of exchange prevailing at the date of the transactions. Any resulting foreign exchange gains or losses are recognised directly in equity in the currency translation reserve.

At 30 June 2006, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 27.0789.

**(v) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**4. Critical Accounting Estimates and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on the Directors' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors also make certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Accounting at historical cost.** The Directors consider that while development projects that are being undertaken by the Group are at the pre-development through to construction stages, applying a fair value as at the balance sheet date to the project sites involves additional costs without enhancing the usefulness of the financial statements. The Directors therefore only consider valuations to be appropriate once the developments are completed and the properties are to be classified as investment properties in accordance with *IAS 40 "Investment Property"*. Accordingly, only where required by accounting standards have assets and liabilities been recorded at fair values in these financial statements. This includes the fair value of the separately identifiable assets and liabilities acquired as part of business combinations.

**Determination of fair values for property development rights.** The Group, through a business combination, has acquired either an investment contract or existing land use rights that provide it with the entitlement to develop the relevant sites. The Group has obtained a report from an international valuation company setting out the estimated market values for the land plots in their current state. In addition to these values, the Directors have considered it appropriate to apply a discount to the market values proposed by the professional valuer in order to reflect the absence of full permits and permissions relating to the development of the sites as at the date of acquisition and therefore representing a restriction on the Group's ability to achieve the appraised values for the sites where they were to be sold to third parties on an arm's length basis. The discounts applied represent the Directors' estimate of the risk premium that would be commanded by an acquirer. The discount that has been applied ranges from 0% to 20%, and has been applied depending on the status of obtaining the relevant licences and permits as at the date of acquisition, with the discount being greater where the development project is in an earlier stage of

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**4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)**

development. Where a different assessment was made, either of the assumptions underlying the valuation report, or the discounts applied to reflect the lack of all required development licences and permits, the recorded fair values of the property development rights could be higher or lower as at the date of acquisition.

**Principal assumptions for management's estimation of fair value of property development rights.** The principal assumptions underlying the Directors' estimate of fair value are those related to: the forecast sale or rental prices per square metre for residential, retail or office space as appropriate for the individual developments on completion; the forecast yields for retail and office accommodation; the level of construction costs per square metre; the level of developer profit assumed to be required in the current market and the level of financing and other costs. The principal assumptions made, and the impact on the aggregate valuations by changing these assumptions is as follows:

- Yield achieved on commercial or retail space, between 9 and 9.5%. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated USD 16.2 million lower or USD 19.8 million higher;
- Sale or rental prices, between USD 650 and USD 1,750 per square metre for office and retail space, and up to USD 20,000 per square metre for residential properties. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated USD 14.6 million lower or USD 14.6 million higher; and
- Construction costs, between USD 1,300 and USD 3,000 per square metre. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated USD 10.2 million lower or USD 10.2 million higher.

The assumption for the developers' profit has been included based on the estimate of the return that development companies would expect to command in the current market when undertaking development projects. The Directors have determined the level based on their expectations for the Russian market including the likelihood of an influx of competitors in the future.

In addition, the Directors have made an estimate of an appropriate discount to reflect the lack of all the required development licences and permits as at the date of acquisition. Where the estimate of an appropriate discount amount was to differ by 10 percentage points from management's estimates, the carrying value of the property development rights would be an estimated USD 9.6 million lower or USD 4.4 million higher.

**Determination of fair values of other separately identifiable assets and liabilities acquired as part of the business combination.** The Directors have considered all the separately identifiable assets and liabilities within the business combination during the period and have engaged specialists to assist with the determination of the fair value of these assets and liabilities. This has involved judgment as part of the purchase price allocation determination. One of the assumptions made includes determining the effective interest rate in order to fair value liabilities such as borrowings. Refer to Notes 13 and 24.

While the Directors do not believe that any additional assets and liabilities, particularly intangible assets, have been acquired, had they determined other assets and liabilities qualify to be recorded the negative goodwill recognised in the income statement would have been different.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

**Related party transactions.** In the normal course of business the Group enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for making this judgement is pricing for similar types of transactions with unrelated parties.

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**5. Standards and Interpretations of Existing Standards that are not yet Effective**

The following interpretations of existing standards have been published that are mandatory for the annual periods beginning on or after 1 January 2007 or later and which the Group has not early adopted:

**IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures.** The IFRS (effective from 1 January 2007) introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in *IAS 32, Financial Instruments: Disclosure and Presentation*.

The Amendment to *IAS 1* introduces disclosures about the level of an entity's capital and how it is managed. This standard does not impact on the classification and valuation of the Group's financial instruments.

**Other new standards or interpretations.** The Group has not early adopted the following other new standards or interpretations:

- *IFRIC 7, Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- *IFRIC 8, Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- *IFRIC 9, Reassessment of Embedded Derivatives* (effective for periods beginning on or after 1 June 2006).
- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for periods beginning on or after 1 November 2006).
- *IFRIC 11, IFRS 2 Group and Treasury Share Transactions* (effective for periods beginning on or after 1 March 2007).

Except IFRS 7 and the related Amendment to IAS 1, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

**6. Property development rights**

The Group, through its Russian subsidiaries, has obtained property development rights either through entering into investment contracts with the Moscow City Government or acquiring land use rights.

The investment contracts and land use rights are amortised using a straight-line method during the development and construction stage until the completed property is to be registered with the Moscow City Government. The amortisation is capitalised as part of property development expenses. Once the developments are complete, a long term land lease of forty-nine years in respect of each property is typically obtained.

In respect of the Group's current development projects, the following contracts were held:

	<u>Investment contracts</u>	<u>Land use rights</u>	<u>Property development rights</u>
<b>At 14 March 2006</b> . . . . .	—	—	—
Property development rights held by subsidiaries acquired (Note 22) .	19,081	64,095	83,176
Amortisation . . . . .	—	—	—
<b>At 30 June 2006</b> . . . . .	<u><b>19,081</b></u>	<u><b>64,095</b></u>	<u><b>83,176</b></u>

The investment contract relates to a co-investment agreement with the Moscow City Government in relation to the Zemliany project being developed by LLC Dinas. The co-investment agreement sets out that the Moscow City Government will obtain a 5% ownership interest in the completed property.



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**6. Property development rights (Continued)**

The land use rights held are detailed below:

Name of subsidiary that has entitlement to the lease agreement	Date land use right acquired by the Group	Period of the lease from the date of acquisition
LLC Ostozhie . . . . .	30 June 2006	24 years
LLC Central Market . . . . .	30 June 2006	47 years

**7. Development Licence**

A Government decree dated 14 November 2005 granted development licences to LLC Project Bureau that permit LLC Project Bureau to develop real estate projects in the Russian Federation. The licences expire on 14 November 2010. The licences are amortised using a straight-line method until their expiry date. The amortisation is capitalised as part of property development expenses. The licences are renewable for a nominal fee on application to the Moscow City Government for additional five-year periods on a rolling basis. Given the uncertainties in the business environment in Russia, the Directors consider amortisation over a maximum of a five-year period is appropriate. LLC Project Bureau was acquired by the Group on 30 June 2006 (Note 22).

	Development licence
<b>At 14 March 2006</b> . . . . .	—
Development licences held by subsidiaries acquired (Note 22) . . . . .	400
Amortisation . . . . .	—
<b>At 30 June 2006</b> . . . . .	<b><u>400</u></b>

**8. Property Development Expenses**

	Property development expenses
Property development expenses acquired—properties to be held (Note 22) . . . . .	6,909
Property development expenses acquired—inventory (Note 22) . . . . .	43
<b>At 30 June 2006</b> . . . . .	<b><u>6,952</u></b>

Property development expenses relate both to the development sites that the Group expects to hold for long term rental yields or for capital appreciation or both, and that is not to be occupied by the Group and will be classified as investment property on completion. Where properties are being developed for intended sale on completion, these costs are recorded as inventory.

**9. Plant and Equipment**

	Office and computer equipment	Motor vehicles	Total
<b>Net book amount at 14 March 2006</b> . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
<b>Carrying value at 14 March 2006</b>			
Opening balance . . . . .	—	—	—
Acquisitions through business combinations (Note 22) . . . . .	14	16	30
<b>Carrying value at 30 June 2006</b> . . . . .	<b><u>14</u></b>	<b><u>16</u></b>	<b><u>30</u></b>

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
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**10. Other Non-current Assets**

Other non-current assets include advances paid in respect of the Group's developments. USD'000 228 relates to design and investigation works to be undertaken in relation to the Group's development at 15 Tsvetnoy Boulevard.

**11. Debtors and Prepayments**

	<b>30 June 2006</b>
Trade receivables . . . . .	38
Prepaid expenses . . . . .	13
Other receivables . . . . .	22
<b>Total debtors and prepayments . . . . .</b>	<b><u>73</u></b>

**12. Cash and Cash Equivalents**

Amount of cash and cash equivalents consists of cash on hand and current accounts.

	<b>30 June 2006</b>
Current accounts denominated in RUR . . . . .	184
Current accounts denominated in USD . . . . .	2,966
Cash on hand denominated in RUR . . . . .	1
<b>Total cash and cash equivalents . . . . .</b>	<b><u>3,151</u></b>

Current accounts held in RUR and USD are non-interest bearing accounts.

**13. Borrowings**

The Group enters into a number of loan agreements with related parties in order to provide finance for the Group's activities. The loan agreements that are in place as at 30 June 2006 are set out below:

<b>Lender</b>	<b>Original currency of loan</b>	<b>Total amount of borrowing facility</b>	<b>Nominal interest rate on loan</b>	<b>Repayment date</b>	<b>Outstanding nominal loan amount at 30 June 2006</b>	<b>Amortised cost at 30 June 2006</b>
<b>Non-current borrowings</b>						
Hinter View Limited . . . . .	USD	2,400	5.5%	25 Feb 2009	2,531	2,179
Hinter View Limited . . . . .	USD	2,000	5.5%	30 Apr 2009	602	510
Denhurst View Limited . . . . .	USD	3,600	5.5%	25 Feb 2009	3,775	3,246
Denhurst View Limited . . . . .	USD	3,000	5.5%	30 Apr 2009	904	766
<b>Total non-current borrowings . . . . .</b>					<b><u>7,812</u></b>	<b><u>6,701</u></b>
<b>Current borrowings</b>						
ZAO Inpromtex . . . . .	RUR	1,000	3%	31 Dec 2006	38	36
D.E.S. Commercial Holdings Limited . .	USD	10,560	0%	on demand	2,132	2,132
Directway Investments Limited . . . . .	USD	1,200	4%	31 Dec 2006	1,221	1,189
<b>Total current borrowings . . . . .</b>					<b><u>3,391</u></b>	<b><u>3,357</u></b>
<b>Total borrowings . . . . .</b>					<b><u>11,203</u></b>	<b><u>10,058</u></b>

**R.G.I. International Limited**  
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**13. Borrowings (Continued)**

All interest rates on loans are fixed until maturity. The effective interest rate applied for the amortisation of the loans is 13%, being the market interest rate for similar loans as at the date of inception of the loan or its date of transfer to be Group on acquisition. Refer to Note 22.

The Group has undrawn borrowing facilities available to it, should additional finance be required. The total amount of undrawn facilities as at 30 June 2006 was USD'000 11,928, of which USD'000 8,428 relates to the facility provided by D.E.S. Commercial Holdings Limited, USD'000 2,100 relates to the facility provided by Denhurst View Limited and USD'000 1,400 relates to the facility provided by Hinter View Limited.

The movement in the loans during the period is as follows:

	Hinter View Limited	Denhurst View Limited	ZAO Inpromtex	D.E.S. Commercial Holdings Limited	Directway Investments Limited	Total
As at 14 March 2006 . . . . .	—	—	—	—	—	—
Acquisitions of subsidiaries (Note 22) . . . . .	2,689	4,012	36	1,000	1,189	8,926
Draw down of loans in the period . . . . .	—	—	—	1,132	—	1,132
<b>Total borrowings as at 30 June 2006 . . . . .</b>	<b>2,689</b>	<b>4,012</b>	<b>36</b>	<b>2,132</b>	<b>1,189</b>	<b>10,058</b>

**14. Deferred Purchase Consideration**

Deferred purchase consideration includes consideration payable on the acquired subsidiaries by the Group, as follows:

	Payment due date	Nominal amount outstanding at 30 June 2006	Amortised cost carrying value as at 30 June 2006
Liability for purchase of Ling Investments Limited .	15 December 2006	2,000	1,884
Liability for purchase of Canalet Holding Limited .	1 December 2006	1,200	1,136
Liability for purchase of LLC Project Bureau . . . .	15 December 2006	1,800	1,695
Liability for purchase of LLC Ostozhie . . . . .	15 September 2006	1,550	1,508
Liability for purchase of LLC Dinas . . . . .	29 September 2006	2	2
Liability for purchase of LLC Armix . . . . .	31 August 2006	3	3
<b>Total liabilities for purchase of subsidiaries . . . . .</b>		<b>6,555</b>	<b>6,228</b>

All the entities above were acquired by the Group as part of the Business Combination as detailed in Note 22.

All the above liabilities, with the exception of the liabilities for purchase of LLC Armix and LLC Dinas, are required to be settled in US dollars. The liabilities have been discounted at an effective rate of interest of 13% to determine the carrying value as at the balance sheet date.

**15. Trade and Other Payables**

	30 June 2006
Trade payables . . . . .	45
Amounts due to personnel . . . . .	39
Advances received . . . . .	11
<b>Total trade and other payables . . . . .</b>	<b>95</b>

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**16. Other Taxes Payable**

	<u>30 June 2006</u>
Property tax . . . . .	18
Pension tax . . . . .	11
Value added tax . . . . .	10
Other taxes . . . . .	15
<b>Total other taxes payable . . . . .</b>	<b><u>54</u></b>

**17. Share Capital**

The Company's share capital is denominated in British Pounds ("GBP").

	<u>Number of shares</u>	<u>Nominal amount in actual GBP</u>
<b>Authorised share capital as at 14 March 2006 . . . . .</b>	<b>—</b>	<b>—</b>
Authorised share capital (ordinary shares of 0.0001 GBP) . . . . .	500,000,000	50,000
Issued ordinary shares of 0.0001 GBP . . . . .	2,000	0.2
<b>Outstanding unissued authorised shares at 30 June 2006 . . . . .</b>	<b><u>499,998,000</u></b>	<b><u>49,999.8</u></b>

	<u>Number of shares</u>	<u>Nominal amount in actual GBP</u>	<u>Carrying value in actual USD</u>
<b>Share capital as at 14 March 2006 . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>
Issued and fully paid ordinary shares of 0.0001 GBP . . . . .	2,000	0.2	0.4
<b>Share capital as at 30 June 2006 . . . . .</b>	<b><u>2,000</u></b>	<b><u>0.2</u></b>	<b><u>0.4</u></b>

The share capital of the Company comprises only ordinary shares, all of which bear the right to dividends as approved at the General Meeting of the Shareholders. No other additional rights or preferences are attached to this class of shares.

Subsequent to the reporting date a number of transactions took place relating to the share capital of the Company, as disclosed in Note 27, which changed both the shareholding structure of the Company as well as share nominal price and total number of authorised and issued shares.

**18. Income Tax**

The Group operates in three tax jurisdictions and the Company and its subsidiaries are subject to tax at the rates in force in their respective countries of tax residence, the Island of Guernsey, the Republic of Cyprus or the Russian Federation.

The Company is a Guernsey incorporated entity, which is registered with the Administrator of Income Tax in Guernsey in order to obtain an exempt status. It is not anticipated that any income, other than bank interest income, will arise in Guernsey and therefore the Company will not be subject to tax in Guernsey.

The tax rates for the Group's subsidiaries are currently 10% in Cyprus and 24% in the Russian Federation.

Under certain conditions for the Cypriot subsidiaries, interest may be subject to additional tax at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax burden of approximately 15%.

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**18. Income Tax (Continued)**

A reconciliation between the expected and the actual taxation charge is provided below:

	Period from 14 March to 2006 30 June 2006
<b>Profit before taxation</b> . . . . .	<b>40,822</b>
Theoretical tax charge at the applicable statutory rate (24%) . . . . .	9,797
Tax effect of items, not deductible or assessable for taxation purposes:	
—Income not subject to tax (negative goodwill and other) . . . . .	(9,951)
—Non-deductible expenses . . . . .	154
<b>Income tax for the period</b> . . . . .	<b>—</b>

As the majority of the Group's operations are conducted in the Russian Federation, the Directors apply the tax rate ruling in the Russian Federation as the applicable statutory tax rate for the purposes of the above reconciliation, currently 24%.

	14 March 2006	Business combinations	Movement	30 June 2006
<b>Tax effect of deductible temporary differences</b>				
Previously capitalised expenses charged to income . . . . .	—	19	—	19
<b>Gross deferred tax asset</b> . . . . .	<b>—</b>	<b>19</b>	<b>—</b>	<b>19</b>
<b>Tax effect of taxable temporary differences</b>				
Recognition of property development rights at fair value . .	—	19,930	—	19,930
Recognition of development licence at fair value . . . . .	—	96	—	96
Capitalisation of qualifying costs . . . . .	—	36	—	36
Capitalised interest expense . . . . .	—	5	—	5
Other . . . . .	—	7	—	7
<b>Gross deferred tax liability</b> . . . . .	<b>—</b>	<b>20,074</b>	<b>—</b>	<b>20,074</b>
<b>Total net deferred tax liability</b> . . . . .	<b>—</b>	<b>20,055</b>	<b>—</b>	<b>20,055</b>

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

As at 30 June 2006, the subsidiaries in the Group had tax losses of USD'000 55 to carry forward against future taxable income; all of which relate to subsidiaries in the Russian Federation. However, the benefit of these tax losses has not been recorded in these consolidated financial statements due to uncertainty of their recoverability out of future taxable income.

**19. Consulting and Other Professional Services**

In connection with the establishment of the Group and readiness for a public offering of its shares, a number of expenses have been incurred relating to legal and financial consultants engaged. All of these expenses incurred in the period have been expensed in the income statement during the period.

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**20. Other Expenses**

	Period from 14 March 2006 to 30 June 2006
Incorporation and registration fees . . . . .	32
Office maintenance . . . . .	5
<b>Total other expenses . . . . .</b>	<b><u>37</u></b>

**21. Net cash outflow from operating activities**

	Period from 14 March 2006 to 30 June 2006
Operating profit . . . . .	40,808
Adjustments for:	
Negative goodwill on business combination (Note 22) . . . . .	(41,463)
Other non-monetary expenses . . . . .	31
<b>Net cash outflow from operating activities . . . . .</b>	<b><u>(624)</u></b>

**22. Business Combinations**

During the period, the Group acquired the share capital of a number of entities, which together form a business. These transactions are accounted for a single business combination with an effective date of 30 June 2006. The Directors consider that the inclusion of the property development company, LLC Project Bureau, was important in assessing that the acquisition of the Russian project entities collectively was a single business combination and therefore it is the date of the share purchase agreement for LLC Project Bureau that has been applied as the date of the acquisition of the business combination. The Group acquired 100% economic and voting interests in the business, except for a 60% interest in Ling Investments Limited as disclosed in Note 1.

None of the subsidiaries acquired during the period contributed to the financial performance of the Group in the period.

After making every reasonable effort to separately state the revenue and profit or loss of the combined entities for the period as though the acquisition date for all subsidiaries affected during the period had been the beginning of the period, the Directors believe that it is impracticable to do so.



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**22. Business Combinations (Continued)**

Details of the aggregate separately identifiable assets and liabilities acquired during the period are as follows:

	IFRS carrying amount	Attributed fair value
Property development rights . . . . .	133	83,176
Development licence . . . . .	—	400
Property development expenses—properties to be held . . . . .	6,909	6,909
Property development expenses—inventory . . . . .	43	43
Cash and cash equivalents . . . . .	3,128	3,128
Plant and equipment . . . . .	30	30
Other assets . . . . .	312	312
Borrowings . . . . .	(8,926)	(8,926)
Borrowings made by the Company . . . . .	(135)	(135)
Trade and other payables . . . . .	(53)	(53)
Other liabilities . . . . .	(54)	(54)
Deferred tax liability . . . . .	(29)	(20,055)
<b>Value of net assets of subsidiaries . . . . .</b>	<b>1,358</b>	<b>64,775</b>
Less: minority interest . . . . .		(16,742)
Less: negative goodwill on business combination . . . . .		(41,463)
<b>Total purchase consideration . . . . .</b>		<b>6,570</b>
<b>Payment of consideration:</b>		
<b>Paid in cash . . . . .</b>		<b>342</b>
<b>Deferred consideration . . . . .</b>		<b>6,228</b>
Total purchase consideration paid in cash . . . . .		342
Less: cash and cash equivalents of subsidiaries acquired . . . . .		(3,128)
<b>Inflow of cash and cash equivalents on acquisition . . . . .</b>		<b>2,786</b>

Negative goodwill has arisen due to the transfer of the existing business of the Group's founder, Chief Executive and controlling shareholder into the Group predominantly based on carrying values in the individual entities acquired rather than the fair value of the individual assets and liabilities acquired.

**23. Financial Risk Management**

The Group considers its risks in respect of financial risks (credit, market, geographical, foreign exchange risk, liquidity and interest rate), operational risks and legal risks. The primary objectives of the Company's financial risk management is to establish risk limits, and then ensure that exposure to risk stays within these limits. The Group is continuing to develop its operational and legal risk management functions as the Group's activities expands, and the current arrangements together with the improvements being introduced are intended to ensure the proper functioning of internal policies and procedures to minimise operational and legal risks both currently and in the future.

**Credit risk.** The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay all amounts in full when due. Financial assets, which potentially subject the Group to credit risk, consist principally of accounts receivable and cash and cash equivalents.

The carrying amount of accounts receivable and balances with banks represents the maximum amount that the Group is exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond any provision already recorded. Cash and cash equivalents are placed in financial institutions, which are considered at the time of the deposit to have a minimal risk of default.

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**23. Financial Risk Management (Continued)**

**Market risk.** The Group takes on exposure to market risks. Market risks mainly arise from uncertainties concerning future prices on real estate, specifically on the sale of luxury residential properties and the rental of high quality office accommodation and retail units in central Moscow.

**Foreign Exchange risk.** Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. At 30 June 2006, the Group was exposed to foreign exchange risks arising from various currency exposures, primarily with respect to US dollars. A foreign exchange risk arises from recognised monetary assets and liabilities. The Group's policy is not to enter into any currency hedging transactions in respect of these risks. The disclosures of financial instruments by currency are presented in note 12, 13, and 14.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturities of assets and liabilities do not match. The Group structures its assets and liabilities in such a way that liquidity risk is minimised. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of additional funding. At 30 June 2006, the Group recorded a net working capital deficit. The Directors consider this to be a temporary position that is covered by the existing credit lines and unused borrowing facilities in place as at the balance sheet date of USD'000 11,928 (see Note 13). In addition, the anticipated issue of additional share capital, that occurred in September 2006 subsequent to the end of the reporting period, provided additional equity finance to the Group of USD'000 30,000 (see Note 27).

**Interest rate risk.** Interest rate risk arises due to the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Group. Cash flow interest rate risk is minimised since all borrowings in the Group are at fixed interest rates, however, the Group is exposed to fair value interest rate risk on its borrowings.

**24. Fair Value of Financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

**Borrowings.** The fair value of borrowings on initial recognition has been calculated using a discount rate of 13%. A number of assumptions have been made in performing these calculations, including the expected timing and amounts of cash flows becoming due under the loan agreements. It was further assumed that the Group will repay the entire outstanding amounts of borrowings at the contractual maturity dates. It is further necessary to estimate the equivalent borrowing rate available to the Group in the open market.

The Directors believe that the attributed carrying values including interest amounts accrued represent the best estimate of fair value on inception and as at 30 June 2006. To the extent that the interest rate differs by  $\pm 1\%$ , the fair value would be an estimated USD'000 130 lower or USD'000 135 higher respectively as at 30 June 2006.

**25. Contingencies, Commitments and Operating Risks**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the Directors are of the opinion that no material losses will be incurred in respect of claims.

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**25. Contingencies, Commitments and Operating Risks (Continued)**

**Tax legislation.** The Company has exempt tax status in Guernsey. The Directors manage the Company in such a manner that this is not expected to change. The Group also operates in Cypriot and Russian tax jurisdictions. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the period of review. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing legislation that was introduced on 1 January 1999 provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

The Directors have not attributed a fair value to any tax risks identified as arising on the business combinations during the period.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The Group considers it has met the organisational, legal, tax filing and other obligations of the countries in which the Company and its subsidiaries are incorporated. Management believes that its interpretation of the relevant legislation is appropriate and the Group tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2006 no provision for potential tax liabilities was recorded.

**Capital expenditure commitments.** At 30 June 2006, the Group had contractual capital expenditure commitments in respect of property development totalling USD'000 7,217.

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar such commitments.

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	<b>30 June 2006</b>
Not later than 1 year . . . . .	72
Later than 1 year and not later than 5 years . . . . .	199
Later than 5 years . . . . .	2,656
<b>Total operating lease commitments . . . . .</b>	<b><u>2,927</u></b>

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
(in thousands of US dollars, unless otherwise stated)

**25. Contingencies, Commitments and Operating Risks (Continued)**

The Group's operating leases relate to the lease of land from the Moscow City Government, which are valid for a period between twenty-four and forty-seven years and can be used by the lessee for the purpose agreed in advance with the lessor. The office premises occupied by the Group in Moscow are owned by LLC Ostozhie and as such no additional operational lease agreements are in force as at 30 June 2006.

**Guarantees.** During the reporting period the Group has not granted any guarantees or provided collateral to third parties.

**Insurance policies.** The Group holds insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks. The total insurance coverage is USD'000 234.

**Environmental matters.** The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, management believes that there are no significant liabilities for environmental damage.

**Operating environment of the Group.** The Group through its operations has significant exposure to Russia's economy and financial markets. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

**26. Related Party Transactions**

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures".

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 30 June 2006 are detailed below:

	ZAO Inpromtex	D.E.S. Commercial Holdings Limited	Directway Investments Limited	Denhurst View Limited
Outstanding loans and accrued interest due to related parties . . . . .	38	2,132	1,221	4,679
Disbursements of borrowings from related parties . . . . .	—	1,132	—	—

ZAO Inpromtex, D.E.S. Commercial Holdings Limited, Directway Investments Limited and Denhurst View Limited are entities beneficially owned by the Group's ultimate controlling party, Mr Boris Kuzinez.

In the reporting period, key management of the Group received no compensation in the form of salary, bonuses, termination benefits, post-employment and other benefits, as they were not employed by the Group until after the balance sheet date. No benefits were paid on behalf of other entities.

The legal advisors were appointed to act on behalf of the Group in respect of signing acquisition agreements and other major contracts affecting the operations of the Group. The key management, on the

**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
(in thousands of US dollars, unless otherwise stated)

**26. Related Party Transactions (Continued)**

other hand, were providing free of charge services related to major operational and investing decisions of the Group.

**Transactions in relation to the Business Combination.** As part of the business combination, the following consideration was paid to the following individual parties with the outstanding amount as at the balance sheet date:

	<u>Total consideration</u>	<u>Outstanding liability</u>
<b>Related party transactions</b>		
ZAO Inpromtex . . . . .	1,472	1,472
Denhurst View Limited . . . . .	2,000	2 000
Whyre Holdings Limited . . . . .	1,200	1,200
Boris Kuzinez . . . . .	1,800	1,800
<b>Other transactions</b>		
Vera Ryazanova . . . . .	78	78
Natalia Martynenko . . . . .	3	3
<b>Total</b> . . . . .	<u><b>6,553</b></u>	<u><b>6,553</b></u>

**D.E.S. Commercial Holdings Limited, ZAO Inpromtex, Denhurst View Limited and Whyre Holdings Limited** are entities beneficially owned by the Group's founder, Chief Executive and controlling shareholder, Boris Kuzinez.

**Boris Kuzinez** is the ultimate controlling party of the Group and a member of the Group's key management.

**Natalia Martynenko and Vera Ryazanova** are not related parties as defined by IAS 24 "Related Party Transactions" but are connected to the ultimate controlling party through employment contracts or family relationships.

**27. Events after the Balance Sheet Date**

**Acquisition of Lafar Management Limited.** On 19 September 2006, the Group agreed to acquire 50% of the share capital of Lafar Management Limited, a Cyprus registered company, for a cash consideration of USD'000 24,822. As a result of the acquisition, the Group obtained equal voting rights providing it with joint control over the entity with the economic interest increasing to 50% in accordance with the consideration paid.

The consideration is to be paid in instalments, with the Group obtaining a 25% shareholding on the date of the agreement; an additional 12.5% of the shares is to be transferred to the Group once the contribution paid in aggregate is USD'000 14,100 and the remaining 12.5% is to be transferred to the Group once the aggregate contribution paid reaches USD'000 19,500.

The net assets of Lafar Management Limited at the date of the acquisition were nil. Lafar Management Limited holds 100% of the share capital of its Russian subsidiary, LLC Stolichnoe Podvorie, that holds the development rights from the Moscow City Government to develop a residential complex at 3 Khilkov Lane in Moscow. The net assets of LLC Stolichnoe Podvorie at the date of acquisition by the Group were USD'000 418.

The Directors have not yet been able to perform an identification of all the net assets acquired in particular the intangible assets providing the rights for the project entity in order to development the Khilkov Lane site. As a result, it has not been practical for the Directors to calculate the amount of goodwill arising on the acquisition.

**Acquisition of additional 40% of Ling Investment Limited.** On 2 November 2006, the Company acquired an additional 40% of the share capital of Ling Investment Limited for USD'000 1,500. In a connected

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**27. Events after the Balance Sheet Date (Continued)**

transaction, Kensington Gore Limited also acquired shares in the Company previously held by the majority shareholder as part of the total consideration payable. As part of the agreement, the loans owed to Hinter View Limited were assigned to Toucho Investments Limited. The Directors have not yet finalised the accounting that will be applied to this transaction and therefore have not been able to determine any goodwill arising.

**Acquisition of Yialoka Holdings Limited.** On 5 September 2006, the Group acquired 100% of the share capital of Yialoka Holdings Limited. On 15 November 2006, Yialoka Holdings Limited acquired 100% of the share capital of LLC Directway Investments Limited. The Directors expect LLC Directway Investments Limited to be the project entity for the Taganka project. The total consideration payable is USD'000 5,200, such consideration to be paid within 60 calendar days of the date of issue of a resolution of the Moscow Government on construction of the Taganka project. The Directors have not yet finalised the accounting that will be applied to this transaction and therefore have not been able to perform an identification of all the net assets acquired in particular any intangible assets providing the rights for the project entity in order to develop the Taganka site. As a result it has not been practical for the Directors to calculate the amount of goodwill arising on the acquisition.

**Issuance of new shares and share split.** On 21 September 2006, the issued and authorised share capital of the Company was subdivided. All of the 500,000,000 ordinary shares of GBP 0.0001 each were subdivided on a 1 : 25,000 basis into ordinary shares with a par value of GBP 0.000000004 each. As a result of this split, the share capital comprised 50,000,000 issued shares and a total of 12,500,000,000 authorised shares, without a change in the total share capital value.

On 27 September 2006, the Company issued 9,090,909 additional shares, which were acquired by SSF III Fathers Holdings Limited for a total consideration of USD'000 30,000. The existing shareholder of the Group, D.E.S. Commercial Holdings Limited, committed, on its turn, to convert for no consideration the outstanding loan balance as at the date of the agreement, provided by the ultimate parent to the Company of USD'000 5,559 into the share capital of the Company (which is to be accounted for as additional share premium); to provide an additional cash investment of USD'000 4,961 and to repay the then outstanding loan to Denhurst View Limited in the amount of USD'000 5,832. As a result of this transaction, the shareholding of D.E.S. Commercial Limited decreased from 99% to 83%, with the new shareholder holding approximately 15% of the total share capital of the Company.

On 9 November 2006, an additional 10,606,060 shares were issued, being distributed between D.E.S. Commercial Holdings Limited and Jacob Kriesler, who received 10,446,969 and 159,091 shares, respectively.

The ultimate shareholding structure as at the date of approval of these financial statements was as follows:

	Total shares held	% ownership in the Company
<b>Shareholder</b>		
D.E.S. Commercial Holdings Limited . . . . .	50,994,832	73
SSF III Fathers Holdings Limited . . . . .	9,090,909	13
Kensington Gore Limited . . . . .	8,702,137	12
Jacob Kriesler . . . . .	909,091	2
<b>Total . . . . .</b>	<b>69,696,969</b>	<b>100</b>

**Agreement to acquire Butikovsky property.** On 23 October 2006, the Group's subsidiary Nospelt Limited entered into an agreement to obtain a 70% interest in the entire Butikovsky Development registered in its name upon completion of construction and a further agreement to have the remaining 30% interest (assuming the prior acquisition by the project developer, ZAO Inpromtex, of the Moscow Government's share) in the Butikovsky Development transferred to it by ZAO Inpromtex upon registration of such



**R.G.I. International Limited**  
**Notes to the Consolidated Financial Statements (Continued)**  
**(in thousands of US dollars, unless otherwise stated)**

**27. Events after the Balance Sheet Date (Continued)**

interest in ZAO Inpromtex's name following completion of construction. The total consideration payable, inclusive of VAT, is USD'000 24,460, with this amount payable in stages according to the status of the development's construction and registration of the completed development. The total consideration payable, inclusive of VAT, to acquire 70% of the completed property is USD'000 16,200, and USD'000 8,260 for the 30% of the completed property. Such payments are either refundable or are not required to be made in certain circumstances such as termination of the agreements in accordance with the terms of such agreements.

**28. Seasonality**

The Group's business displays some seasonality characteristics, mainly due to reduced ability to undertake construction work during the winter months in Moscow. This seasonality, however, does not have a significant influence on the overall operations of the Group and for each development the construction schedule is planned accordingly.

**29. Earnings per Share**

The basic earnings per share has been calculated by dividing the net profit attributable to the equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The Company has undertaken a share split subsequent to period end, where the issued and authorised ordinary shares of GBP 0.0001 each were subdivided on a 1 : 25,000 basis into ordinary shares with a par value of GBP 0.000000004 each. As a result, the number of shares has changed without any corresponding change in resources.

	<u>Earnings</u>	<u>Shares</u>	<u>Per Share</u>
Profit attributable to ordinary equity holders of the Company for the period ended 30 June 2006 . . . . .	40,822		
Weighted average number of ordinary shares outstanding during the period (in thousand shares) . . . . .	<u>          </u>	50,000	<u>          </u>
<b>Basic earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD per share) . . . . .</b>	<u>          </u>	<u>          </u>	<u>0.81644</u>

## PART VII

### ADDITIONAL INFORMATION

#### 1. Responsibility

- 1.1 The Directors, whose full names are set out below, accept responsibility, both individually and collectively, for the information contained in this document, including responsibility for compliance with the AIM Rules. 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.

##### *Directors*

Jacob Kriesler (*Executive Chairman*)  
 Boris Kuzinez (*Chief Executive*)  
 Mariana Golberg (*Finance Director*)  
 Emanuel Kuzinets (*Director*)  
 Timothy Dominic Ignatius Fenwick (*Non-Executive Director*)  
 Rafael Eldor (*Non-Executive Director*)  
 Glenn Hunter Aaronson (*Non-Executive Director*)

whose business address is Frances House, Sir William Place, St. Peter Port, Guernsey GY1 4HQ.

- 1.2 The Industry Consultant (whose registered office is set out on page 3 of this document) accepts responsibility for the Industry Consultant's Report. To the best of the knowledge and belief of the Industry Consultant (who has taken all reasonable care to ensure that such is the case), the Industry Consultant's Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company and its Subsidiaries

- 2.1 The Company was incorporated and registered in the Island of Guernsey on 14 March 2006 under the name R.G.I. International Limited with registered number 44527 as a company limited by shares under The Companies (Guernsey) Law, 1994 (as amended). The principal activity of the Company is that of a holding company of property development and management companies.
- 2.2 The Company's registered office is Frances House, Sir William Place, St. Peter Port, Guernsey GY1 4HQ. The telephone number of such registered office is +44 (0) 1481 731127. The Company is domiciled in Guernsey. The Company's principal place of business is 6 Khilkov Lane, Moscow. The telephone number of such principal place of business is +7 495 363 6934.
- 2.3 The principal legislation under which the Company operates (and under which the Ordinary Shares are created) is The Companies (Guernsey) Law, 1994 (as amended).
- 2.4 The Company has interests in the following companies, each of which is held either directly or indirectly:

Name	Date of Incorporation	Country of Incorporation	Principal Activity	% Ownership Interest
Elorietta Limited . . . . .	10 March 2006	Cyprus	Investment/Holding company	100
Toucho Investments Limited . . . . .	10 March 2006	Cyprus	Investment/Holding company	100
Teruel Investments Limited . . . . .	10 March 2006	Cyprus	Investment/Holding company	100
Nospelt Limited . . . . .	14 March 2006	Cyprus	Investment/Holding company	100
Ling Investments Limited	17 November 2004	Cyprus	Investment/Holding company	100
Canalet Holding Limited .	24 January 2006	Cyprus	Investment/Holding company	100
Lemorian Holdings Limited . . . . .	9 March 2006	Cyprus	Investment/Holding company	100

Name	Date of Incorporation	Country of Incorporation	Principal Activity	% Ownership Interest
Lafar Management Limited . . . . .	19 June 2006	Cyprus	Investment/Holding company	25
Yialoka Holdings Limited	10 May 2006	Cyprus	Investment/Holding company	100
LLC Armix . . . . .	1 December 2005	Russia	Property management company	100
LLC Project Bureau . . . .	26 July 2005	Russia	Property development company	100
LLC Central Market . . . .	1 July 2004	Russia	Property development company	100
LLC Dinas . . . . .	15 November 2005	Russia	Property development company	100
LLC Ostozhie . . . . .	24 November 2005	Russia	Property development company	100
LLC Stolichnoe Podvorie .	7 September 1994	Russia	Property development company	25
LLC Directway Investments Limited . . .	26 June 2006	Russia	Property development company	100

### 3. Share Capital of the Company

3.1 The Company was incorporated on 14 March 2006, with an authorised share capital of £50,000 divided into 12,500,000,000,000 Ordinary Shares.

- 3.1.1 The initial subscriber shares were held in the names of GTC One Limited (“GTC One”) and GTC Two Limited (“GTC Two”). GTC One held 1,000 ordinary shares and GTC Two held 1,000 ordinary shares.
- 3.1.2 On 3 April 2006, GTC One transferred 999 ordinary shares to D.E.S. and retained 1 ordinary share.
- 3.1.3 On 3 April 2006, GTC Two transferred 1,000 ordinary shares to D.E.S.
- 3.1.4 On 31 August 2006, D.E.S. transferred 30 ordinary shares to Jacob Kriesler.
- 3.1.5 On 21 September 2006, GTC One transferred 1 ordinary share to D.E.S.
- 3.1.6 On 21 September 2006, the Company resolved, through written resolutions of its members, to subdivide the Company’s ordinary shares of £0.0001 on a 1:25,000 basis into ordinary shares with a par value of £0.000000004 each, resulting in the Company having an authorised share capital of £50,000 divided into 12,500,000,000,000 ordinary shares of £0.000000004 each.
- 3.1.7 On 27 September 2006, SSF III Father Holdings subscribed for 9,090,909 Ordinary Shares for a total subscription price of US\$30,000,000.
- 3.1.8 On 9 November 2006, D.E.S. transferred 8,702,137 Ordinary Shares to Kensington Gore.
- 3.1.9 On 9 November 2006, the Company issued 10,446,969 Ordinary Shares to D.E.S. pursuant to the RGI Shareholders’ Agreement.
- 3.1.10 On 9 November 2006, the Company issued 159,091 Ordinary Shares to Jacob Kriesler pursuant to the RGI Shareholders’ Agreement.

- 3.2 The authorised and issued share capital of the Company as at 6 December 2006 (being the last practicable date prior to the issue of this document), is as set out below. All issued shares are fully paid or credited as fully paid.

Class of Shares	Authorised		Issued and fully paid or credited as fully paid	
	Number	Amount (£)	Number	Amount (£)
Ordinary Shares . . . . .	12,500,000,000,000	50,000	69,696,969	0.28
<b>Total</b> . . . . .			<u>69,696,969</u>	<u>0.28</u>

- 3.3 Following Admission and the Offer, the authorised and issued share capital of the Company will (assuming no exercise of the Over-allotment Option) be as follows:

Class of Shares	Authorised		Issued and fully paid or credited as fully paid	
	Number	Amount (£)	Number	Amount (£)
Ordinary Shares . . . . .	12,500,000,000,000	50,000	98,796,219	0.40
<b>Total</b> . . . . .			<u>98,796,219</u>	<u>0.40</u>

- 3.4 Neither the Company (nor any of its subsidiaries, nor any party on the Company's behalf) holds any shares in the Company.

- 3.5 The Company has no outstanding convertible securities, exchangeable securities or securities with warrants.

- 3.6 There are no relevant acquisition rights and/or obligations over the Company's authorised but unissued share capital or undertakings to increase the Company's issued share capital.

- 3.7 The Company does not have in issue any listed or unlisted securities not representing share capital.

- 3.8 *Authority to allot*

On 5 December 2006, the Shareholders resolved by way of an ordinary resolution that the Directors be generally and unconditionally authorised pursuant to and in accordance with Article 14.1 of the Articles to exercise all the powers of the Company to allot Relevant Securities up to an aggregate nominal amount of £0.20. The authority was expressed to expire on the date of the annual general meeting in 2011 or on 5 December 2011, whichever is the earlier, and was in substitution for all previous authorities under Article 14.1 but the Company may before such expiry make an offer or agreement which would or might require Relevant Securities to be allotted after such expiry. "Relevant Securities" has the meaning ascribed thereto in the Articles.

On 5 December 2006, the Shareholders further resolved by way of an ordinary resolution that the Directors would be empowered to allot Equity Securities wholly for cash (i) in connection with a rights issue and (ii) otherwise than in connection with a rights issue, up to an aggregate nominal amount of £0.20 as if Article 15.1 of the Articles did not apply to such allotment in accordance with the terms of the Articles (i.e. on a non pre-emptive basis). The power was expressed to expire on the date of the annual general meeting in 2011 or on 5 December 2011, whichever is the earlier, and was in substitution for all previous authorities under Article 15.1. The power granted the Directors the ability to make offers or agreements during that period which would or might require Equity Securities to be allotted after the expiry of that period. "Equity Securities" has the meaning ascribed thereto in the Articles.

#### 4. Memorandum and Articles of Association

- 4.1 Article 3 of the Memorandum of Association of the Company sets out a comprehensive list of the principal objects of the Company including, among other things:

- 4.1.1 to acquire by purchase, lease, exchange or otherwise, land, buildings and hereditaments of any tenure or description wherever situate and any estate or interest therein, and to turn the same to account as may seem expedient, and in particular by preparing building sites and by constructing, altering, improving, decorating, furnishing and maintaining

flats, houses, offices, factories, warehouses, shops, works and conveniences of all kinds, and by consolidating or connecting or sub-dividing properties and by leasing and disposing of the same;

- 4.1.2 to purchase or by any other means acquire and take options over any property whatever, and any rights or privileges of any kind over or in respect of any property;
- 4.1.3 to improve, manage, construct, repair, develop, exchange, let on lease or otherwise, mortgage, charge, sell, dispose of, turn to account, grant licences, options, rights and privileges in respect of, or otherwise deal with all or any part of the property and rights of the Company;
- 4.1.4 to promote any other company for the purpose of acquiring the whole or any part of the business or property or undertaking or any of the liabilities of the Company, or of undertaking any business or operations which may appear likely to assist or benefit the Company or to enhance the value of any property or business of the Company, and to place or guarantee the Offer of, underwrite, subscribe for, or otherwise acquire all or any part of the shares or securities of any such company as aforesaid;
- 4.1.5 to sell or otherwise dispose of the whole or any part of the business or property of the Company, either together or in portions, for such consideration as the Company may think fit, and in particular for shares, debentures, or securities of any company purchasing the same;
- 4.1.6 to carry on the business of an investment company and for that purpose to acquire and hold, either in the name of the Company or in that of any nominee, shares, stocks, debentures, debenture stocks, bonds, notes, obligations, warrants, options, futures and derivative instruments of any kind and securities of any kind issued or guaranteed by any company wherever incorporated or issued or guaranteed by any government, public body or authority in any part of the world, to acquire and deal in any such shares, stock, debentures, debenture stocks, bonds, notes, obligations, warrants, options, futures or derivative instruments of any kind or securities of any kind by subscription, purchase, exchange, underwriting or otherwise (whether or not fully paid up), to enter into financial obligations and contracts of all kinds, including foreign currency transactions and to provide managerial, administrative, supervisory and consultancy services for or in relation to any company in which the Company is interested on such terms as may be thought fit; and
- 4.1.7 to carry on business as a general commercial company.

The Articles, which were adopted conditionally on Admission by the Company on 5 December 2006, by way of written resolution having effect as a special resolution, include provisions to the following effect:

#### 4.2 *Issue of Shares*

The Articles require that the Board shall not exercise any power of the Company to allot Relevant Securities unless they are authorised to do so by the Company in a general meeting in accordance with the Articles. The maximum amount of securities that may be allotted under such authority and the date on which the authority will expire must be stated, which date must not be more than five years from the date on which the resolution was passed. Ordinary Shares do not carry any rights of pre-emption (except regarding issue).

#### 4.3 *Redeemable Shares*

Subject to applicable laws, preference shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the Company or the holder on such terms and in such manner as may be provided by the Articles or by the terms of issue of such shares as determined by the Board.

#### 4.4 *Pre-emption rights*

The Articles contain pre-emption rights on the issue of shares. These rights are that the Company shall not allot any Equity Securities on any terms to a person unless it has made an offer to each person who holds relevant shares or employee shares to allot to him on the same or more

favourable terms a proportion of those securities which is, as nearly as is practical, equal to the proportion in nominal value held by him of the aggregate of relevant shares and relevant employee shares. The Company may by ordinary resolution give the Board power to allot Equity Securities as if the above pre-emption rights do not apply or as if such rights apply with such modifications as the Directors may determine.

#### 4.5 *Voting of class rights and changes of capital*

4.5.1 The special rights attached to any class of shares may, subject to any applicable law, be altered or abrogated, either with the consent in writing of the holders of not less than three-quarters of the issued shares of the class or with the sanction of a resolution passed by not less than three-quarters of the votes cast at a separate meeting of the holders of shares of that class.

4.5.2 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount or convert all or any of its fully paid shares the nominal amount of which is expressed in a particular currency into fully paid shares of a nominal amount of a different currency, the conversion being effected at the rate of exchange (calculated to not less than three significant figures) current on the date of the resolution or on such other date specified by the resolution. This reflects the default position under applicable Guernsey law.

4.5.3 The Company may by special resolution reduce its authorised or issued share capital or any capital redemption reserve and any share premium account in any way subject to authority required by law. Subject to applicable law, the Company may purchase its own shares.

#### 4.6 *Class Meetings*

The provisions of the Articles applicable to general meetings apply mutatis mutandis to every class meeting but the necessary quorum is two persons holding or representing by proxy not less than one tenth of the issued shares of that class except where there is only one holder of the relevant class of shares in which case the quorum shall be that holder.

#### 4.7 *Votes of members*

Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every member who is present in person has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the holder. No member is entitled to attend or vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a disclosure notice (as defined in the Articles) and is in default for the prescribed period in supplying to the Company the information required thereby or, unless the Directors determine otherwise, if any calls from him have not been paid.

#### 4.8 *Directors*

4.8.1 The Company may by ordinary resolution in general meeting fix a shareholding qualification for Directors. Any Director not already so qualified shall obtain his qualification within two months immediately following the date of his qualification.

4.8.2 The amount of any fees payable to Directors (in their capacity as such) shall be determined by the Directors. The Directors are also entitled to be repaid all expenses properly incurred by them respectively in the performance of their duties. Any Director holding an executive office or otherwise performing services which in the opinion of the Directors are outside the scope of his ordinary duties as a Director may be paid such remuneration as the Directors may determine.

4.8.3 The Directors may from time to time appoint one or more of their body to be the holder of any executive office (including the office of chairman, deputy chairman, managing director or chief executive) on such terms as they think fit provided that a managing director or other Director holding executive office must not be resident and/or ordinarily resident in the UK. In the case of an equality of votes, the chairman shall



have the casting vote. The Directors may delegate any of their powers to any committee which may be constituted of one or more individuals (whether or not they are a Director of the Company).

- 4.8.4 Provided that he has disclosed to the Directors in accordance with the Articles the nature and extent of any material interest of his, a Director notwithstanding his office:
- (a) may be a party to, or otherwise interested in, any contract or arrangement with the Company or in which the Company is otherwise interested;
  - (b) may be a Director or other officer of, or employed by, or a party to, any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
  - (c) may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of Director and may act in a professional capacity to the Company on such terms as to remuneration and otherwise as the Directors may arrange; and
  - (d) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.
- 4.8.5 A Director may not vote nor be counted in the quorum in respect of any resolution in the event that he may be materially interested in the subject matter of such resolution.
- 4.8.6 A Director shall not be subject to any mandatory retirement age.
- 4.8.7 The Company shall indemnify any Director of the Company out of the assets of the Company against all losses or liabilities sustained or incurred in or about the execution of his duties, including any liability incurred by him in defending proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, such indemnity to have effect only to the extent permitted under applicable Guernsey law.

#### 4.9 *Transfer and compulsory transfer of Ordinary Shares*

Subject as described below:

- 4.9.1 Any Shareholder may transfer all or any of his uncertificated Ordinary Shares by means of a relevant system authorised by the Directors in such manner provided for, and subject as provided, in the Articles and the rules of such relevant system, and accordingly no provision of the Articles shall apply in respect of an uncertificated Ordinary Share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the shares to be transferred.
- 4.9.2 Any Shareholder may transfer all or any of his certificated Ordinary Shares by an instrument of transfer in any usual form, or in any other form which the Directors may approve, signed by or on behalf of the transferor and, unless the Ordinary Share is fully paid, by or on behalf of the transferee.
- 4.9.3 The Directors shall not be bound to register more than four persons as joint holders of any Ordinary Share.

If it comes to the notice of the Directors that, without the consent of the Directors, a registered holder or beneficial owner of any Ordinary Share is a “non-qualified person” (as defined below), the Directors may at any time serve a notice on such non-qualified person requiring the transfer of the relevant interest in the relevant shares and if a stock transfer form effecting the transfer and any relevant share certificate(s) have not been

received at the registered office of the Company within 28 days of service of the notice, or the person to whom such notice is addressed does not within such period satisfy the Directors that the requirements of the notice have been satisfied, the Company may sell the relevant shares on behalf of the holder of the shares by instructing a stockbroker to sell them in accordance with the best practice then obtaining to a person who is not a non-qualified person.

To give effect to any sale of Ordinary Shares pursuant to the preceding paragraph the Directors may authorise some person to transfer the shares in question and an instrument of transfer executed by that person will be as effective as if it had been executed by the holder of, or person entitled by transmission to, the shares. The purchaser will not be bound to see to the application of the purchase monies nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The proceeds of sale will belong to the Company and, upon their receipt, the Company will become indebted to the former holder of, or person entitled by transmission to, the shares for an amount equal to the net proceeds of transfer. No trust will be created in respect of the debt, and no interest will be payable in respect of it, and the Company will not be required to account for any monies earned from the net proceeds of transfer. The Company may employ such monies earned in its business or as it thinks fit.

The Directors may, at any time, require the registered holder of any Ordinary Shares to provide evidence that the beneficial owner of those shares is not a non-qualified person and that such shares have not been acquired for the account, or for the benefit, of any non-qualified person or with a view to offering or selling the shares to a non-qualified person or in any jurisdiction in which an offer or sale of shares would not be permitted in the manner contemplated.

4.9.4 For the purposes of the preceding three paragraphs a “non-qualified person” is any person to whom a transfer of Ordinary Shares:

- (a) would be a breach of any laws or requirements of any country or governmental authority; or
- (b) might, in the opinion of the Directors (as a result of circumstances directly or indirectly affecting such persons, and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Directors to be relevant) result in the Company incurring any liability to taxation or suffering any pecuniary or regulatory disadvantage which the Company might not otherwise have incurred or suffered.

#### 4.10 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Articles do not include any limitations on the Company’s power to borrow.

#### 4.11 *Disclosures of beneficial interests in Ordinary Shares*

4.11.1 The Directors may serve notice on any Shareholder requiring that Shareholder to disclose to the Company the identity of any person (other than the Shareholder) who has an interest in the Ordinary Shares held by the Shareholder 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 may determine.

4.11.2 If any Shareholder is in default in supplying to the Company the information required by the Company within the prescribed period (which is 14 days after service of the notice), the Directors in their absolute discretion may serve a direction notice on the Shareholder. The direction notice may direct that in respect of the shares of which the default has occurred (the “Default Shares”) and any other shares held by such Shareholder, such Shareholder shall not be entitled to vote in general meetings or class meetings. Where the Default Shares represent at least 0.25 percent of the Shares for the

time being in issue, the direction notice may additionally direct that dividends on such Default Shares will be retained by the Company (without interest), and that no transfer of Default Shares (other than a transfer approved under the Articles) shall be registered until the default is rectified.

4.12 *Annual general meeting and other general meetings*

- 4.12.1 It is intended that the annual general meeting of the Company will normally be held in Guernsey or such other place as may be determined by the Directors. Notices convening the annual general meeting in each year will be sent to Shareholders at their registered addresses or given by advertisement not later than 10 days before the date fixed for the meeting. Other general meetings may be convened from time to time by the Directors by sending notices to Shareholders at their registered addresses or by Shareholders requisitioning such meetings in accordance with Guernsey law, and may be held in Guernsey or elsewhere.
- 4.12.2 No business shall be transacted at any general meeting unless a quorum is present. If there is a majority of members or Directors attending the general meeting who are located in the United Kingdom, the meeting shall be deemed to be inquorate. Save as otherwise provided by the Articles, two members present either in person or by proxy or in the case of a corporation by a duly authorised representative shall be a quorum for a general meeting.

4.13 *Untraceable Shareholders*

The Company shall be entitled to sell at the best price reasonably obtainable the Ordinary Shares of a Shareholder or any Ordinary Shares to which a person is entitled by transmission on death or bankruptcy if and provided that:

- 4.13.1 for a period of twelve years no cheque or warrant sent by the Company through the post in a pre-paid letter addressed to the Shareholder or to the person so entitled to the share at his address in the Register of Members or otherwise the last known address given by the Shareholder or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Company from the Shareholder or the person so entitled provided that in any such period of twelve years the Company has paid at least three dividends whether interim or final;
- 4.13.2 the Company has at the expiration of the said period of twelve years by advertisement in a newspaper circulating in the area in which the address referred to in sub-paragraph 4.13.1 above is located given notice of its intention to sell such shares;
- 4.13.3 the Company has not during the period of three months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the Shareholder or person so entitled; and
- 4.13.4 if any part of the share capital of the Company is quoted on the London Stock Exchange the Company has given notice in writing to the London Stock Exchange of its intention to sell such shares.

4.14 *Distribution of assets on liquidation*

- 4.14.1 The Company may be wound up voluntarily by a special resolution of the Shareholders in general meeting. The Company may also be wound up at any time in accordance with the provisions of The Companies (Guernsey) Laws 1994 (as amended).
- 4.14.2 If the Company is wound up the liquidator will, as soon as is practicable, realise the assets of the Company. The liquidator will be required to apply the assets of the Company to satisfy liabilities incurred by the Company and, after paying off such liabilities or retaining adequate provision for all liabilities properly so payable and retaining for the costs of the winding-up, distribute proceeds of that realisation to the holders of Ordinary Shares, in each case upon production by holders of such evidence as the liquidator may reasonably require as to their entitlement thereto.
- 4.14.3 The holders of Ordinary Shares are entitled *pari passu* among themselves, but in proportion to the numbers of shares held by them and to the amounts paid up or credited as paid up, to share in the proceeds of realisation.

4.14.4 The liquidator may, with the sanction of an extraordinary resolution of the Company, divide among the Shareholders in specie the whole or any part of the assets of the Company and (whether or not the assets consist of property of one kind or of properties of different kinds) may, for that purpose, value any assets and determine how the division shall be carried out as between the Shareholders or different classes of shareholders. The liquidator may, again with the sanction of an extraordinary resolution of the Company, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the Shareholders as he determines. However, no Shareholder shall be compelled to accept any assets on which there is a liability.

4.15 *Dividends*

Subject to applicable Guernsey laws and regulations, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the Shareholders, but no dividend shall exceed the amount recommended by the Board. No dividend shall be paid otherwise than out of profits available for that purpose. Subject to applicable Guernsey laws and regulations, the Board may pay interim dividends if such interim dividends appear to the Board to be justified by the profits of the Company available for distribution. A general meeting declaring a dividend may, upon recommendation of the Board, direct that it shall be satisfied wholly or partly by the distribution of assets.

4.16 *Unclaimed dividends*

Any dividend unclaimed after a period of six years from the date of its declaration shall be forfeited and shall revert to the Company.

4.17 *Change of control*

Other than the Directors' power to refuse to register transfers of shares in certain specified circumstances pursuant to article 33 of the Articles (as described in paragraph 4.9 above, and none of which are specifically directed towards a change of control of the Company), there are no other provisions of the Articles that would have an effect of delaying, deferring, or preventing a change in control of the Company.

4.18 *Minority Shareholder Protection*

The Articles adopt certain of the provisions of the Takeover Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the general principles as set out in the Takeover Code which are to be administered by the Board.

Pursuant to the Articles, a person must not, except as a result of a "Permitted Acquisition" (meaning an acquisition either consented to by the Board, or made in compliance with Rule 9 of the Takeover Code, or arising from the repayment of a stock borrowing arrangement):

4.18.1 acting by himself or with persons determined by the Board to be acting in concert, seek to acquire shares in the Company, which carry 30 percent. or more of the voting rights attributable to the shares in the Company; or

4.18.2 acting by himself or with persons determined by the Board to be acting in concert, hold not less than 30 percent but not more than 50 percent of the voting rights, and seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights;

in circumstances where that person would thereby effect or purport to effect an acquisition which would breach or not comply with Rules 4, 5, 6 or 8 of the Takeover Code, if the Company were subject to the Takeover Code.

4.19 *Power of Board to sell Excess Shares*

Where the Board has reason to believe that any of such circumstances has taken place, then it may take all or any of certain measures:

4.19.1 require the person(s) appearing to be interested in the shares of the Company to provide such information as the Board considers appropriate;

- 4.19.2 have regard to such public filings as may be necessary to determine any of the matters under referred to in paragraph 4.18;
- 4.19.3 make any determination under the Articles in relation to the matters referred to in paragraph 4.18 and this paragraph 4.19 as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any;
- 4.19.4 determine that the voting rights attached to such shares acquired in breach of the Articles, (the “Excess Shares”), are from a particular time incapable of being exercised for a definite or indefinite period;
- 4.19.5 determine that some or all of the Excess Shares are to be sold;
- 4.19.6 determine that some or all of the Excess Shares will not carry any right to any dividends or other distributions from a particular time for a definite or indefinite period; and
- 4.19.7 taking such actions as it thinks fit for the purposes the matters referred to in paragraph 4.18 and this paragraph 4.19, including prescribing rules not inconsistent with the Articles, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determinations or interim determinations, executing documents on behalf of a shareholder, converting any Excess Shares held in uncertificated form to certificated form and vice-versa, paying costs and expenses out of proceeds of sale and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of the matters referred to in paragraph 4.18 and in this paragraph 4.19, including the deemed application of the whole or any part of the Takeover Code, and such authority shall include all the discretion that the Panel on Takeovers and Mergers in the United Kingdom and, from time to time, any successor or replacement body, thereof would exercise if the whole or part of the Takeover Code applied. Any resolution or determination made by the Board, any Director or the chairman of any meeting acting in good faith is final and conclusive and is not open to challenge as to its validity or as to any other ground. The Board is not required to give any reason for any decision or determination it makes.

#### 4.20 *Disclosure of Interests*

Each Shareholder who from time to time is or becomes interested in three percent of the relevant share capital of the Company is required to notify such interest to the Company upon acquisition of such interest or upon any transaction whereby his interest rises above three percent or falls below three percent. Once the three percent threshold is crossed, each Shareholder has a continuing obligation to notify the Company when each whole percentage point is crossed. In the case of a Shareholder who has an interest in the relevant share capital of the Company other than a “material interest”, as defined in section 199(2A) of the Companies Act 1985 (UK), the percentage threshold for disclosure of interests in Ordinary Shares shall be ten percent. Each Shareholder is also required, to the extent that he is lawfully able to do so, to notify the Company if any other person acquires or ceases to have a notifiable interest in such Ordinary Shares of which he is the registered Shareholder, or to use his reasonable endeavours to procure that such other person makes notification of his interests to the Company. Where a Shareholder fails to make the requisite notification, the Company may direct by notice that, in respect of the Ordinary Shares in relation to which the default has occurred, the Shareholder is no longer entitled to be present at general meetings and to vote on any question either in person or by proxy, or to be reckoned in a quorum. Where the default shares represent 0.25 percent or more in nominal value of the issued Ordinary Shares of the relevant class, the Company may also suspend payment of dividends which would have been payable in respect of the Ordinary Shares in relation to which the default has occurred or refuse to register any transfer of any of the Ordinary Shares held by the defaulting Shareholder, unless the transfer is an approved transfer (as defined in the Articles) or the Shareholder has provided the relevant information outlined above along with a certificate which satisfies the Company that no default has occurred in relation to the Ordinary Shares involved in the transfer.



## 5. Directors' and Other Interests

- 5.1 The interests of the Directors (and the interests of any persons connected with them within the meaning of section 346 of the Act), so far as is known to the Directors or could with reasonable diligence be ascertained by them, all of which are beneficial, unless otherwise stated, in the issued share capital of the Company which have been notified to the Company as at 6 December 2006, being the last practicable date prior to the issue of this document and as they are expected to be immediately following Admission are as follows:

Name	Current		Immediately following Admission and Offer <sup>(1)</sup>	
	Ordinary Shares	% of total votes	Ordinary Shares	% of total votes
Boris Kuzinez <sup>(2)</sup> . . . . .	50,994,832	73.17%	50,994,832	51.62
Jacob Kriesler . . . . .	909,091	1.3%	909,091	0.92
Emanuel Kuzinets . . . . .	0	0	0	0
Mariana Golberg . . . . .	0	0	0	0
Timothy Fenwick . . . . .	0	0	0	0
Rafael Eldor . . . . .	0	0	0	0
Glenn Aaronson . . . . .	0	0	0	0

### Notes:

- (1) Assuming no exercise of the Over-allotment Option.
- (2) Boris Kuzinez is the beneficial owner of these Ordinary Shares through his beneficial interest in the entire issued share capital of D.E.S.
- 5.2 Save as disclosed in paragraph 5.1, and as set out below, none of the Directors have any interest in the share capital or loan capital of the Company or any other member of the Group nor does any person connected with the Directors (within the meaning of section 346 of the Act) have any such interest, whether beneficial or non-beneficial. Emanuel Kuzinets is the son of Boris Kuzinez.
- 5.3 None of the Directors or any person connected with them (within the meaning of section 346 of the Act) is interested in any related financial product referenced to Ordinary Shares (being a financial product where value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares including a contract for difference or a fixed odds bet).
- 5.4 In addition to their directorships in the Company and any other member of the Group, the Directors have held the following directorships and/or been a partner in the following partnerships at any time within the five years prior to the date of this document:

Name	Current	Former
Boris Kuzinez . . . . .	– Bestville Limited – Devonport Holdings Limited – Heathway Holdings Limited	– Nil
Jacob Kriesler . . . . .	– K.K Newton Investment Limited – K K Newton Underwriting Limited – Echowave Limited – Kriesler Investments 2005 Limited – Magma Industries Limited – RGI Investments Limited	– Media Excess Technologies Limited – Infobit Limited – Cardonet Limited
Emanuel Kuzinets . . . . .	– RGI Investments Limited	– Nil
Mariana Golberg . . . . .	– Nil	– Africa Israel Investments Limited
Timothy Fenwick . . . . .	– Quantum Potes s.a.	– Atisreal Belex
Rafael Eldor . . . . .	– Perfect (yne) Mutual Fund	– Meofim Machshirim Atideem Vfinanseem Limited – Provident Fund of Union Bank Limited – Coolvision Limited – Cymedia Global Limited



Name	Current	Former
Glenn Aaronson . . .	<ul style="list-style-type: none"> <li>– Deutsche Immobilien Chancen AG &amp; Co. KGaA</li> <li>– Deutsche Immobilien Chancen Beteiligungs AG</li> <li>– Focus Milano 1 S.r.l.</li> <li>– Giordano S.a r.l.</li> <li>– Hector Sicherheiten-Verwaltungsgesellschaft GmbH</li> <li>– Mirandia—Trading e Consultoria Lda</li> <li>– MSREF ICR Luxembourg S.a r.l.</li> <li>– MSREF V Green Cooperatief U.A.</li> <li>– MSREF V Lorenzo Holding S.a r.l.</li> <li>– MSRESS III Plaine De L'Ain S.a r.l.</li> <li>– Multi Corporation B.V.</li> <li>– Pepino S.a r.l.</li> <li>– Petro S.a r.l.</li> <li>– Ramiro S.a r.l.</li> <li>– RosEvro Development Holding Corporation</li> <li>– Sombrero S.a r.l.</li> <li>– Tronador—Consultoria Economica Lda</li> <li>– Vermudo S.a r.l.</li> <li>– Allensford Holding AB</li> <li>– Allensford Huddinge AB</li> <li>– Allensford Visby AB</li> <li>– Ceno Structures L.L.C.</li> </ul>	<ul style="list-style-type: none"> <li>– Bernini S.r.l.</li> <li>– Credito Fondiario e Industriale FONSPA – S.p.A.</li> <li>– Credit Servicing S.p.A.</li> <li>– Galena BVBA</li> <li>– Giotto S.r.l.</li> <li>– Gitana BVBA</li> <li>– Gomiz BVBA</li> <li>– Gregoria BVBA</li> <li>– GSS III Bingen GmbH</li> <li>– GSS III Kassel GmbH</li> <li>– GSS III Partners (Duisberg GP) S.a r.l.</li> <li>– GSS III Partners Duisberg S.a r.l.</li> <li>– GSS III Partners SNFH S.a r.l.</li> <li>– GSS III Partners SN S.a r.l.</li> <li>– GSS III Partners Wuppertal S.a r.l.</li> <li>– Guadalupe BVBA</li> <li>– Immeo Wohnen GmbH</li> <li>– Leonardo S.r.l.</li> <li>– Morgan Stanley Properties Corso Venezia Srl</li> <li>– Michelangelo S.r.l.</li> <li>– Reo Co ICR (5) S.r.l.</li> </ul>

5.5 No Director:

- 5.5.1 has any unspent convictions in relation to indictable offences; or
  - 5.5.2 has been bankrupt or the subject of an individual voluntary arrangement; or
  - 5.5.3 has been a director of any company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors while he was a director of that company at the time of, or within the twelve months preceding, such events; or
  - 5.5.4 has been a partner of any partnership which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement while he was a partner of that firm at the time of, or within the twelve months preceding such events; or
  - 5.5.5 had any asset belonging to him placed in receivership or been a partner of a partnership whose assets have been placed in receivership while he was a partner at the time of, or within twelve months preceding, such receivership; or
  - 5.5.6 has been the subject of any public criticism by statutory or regulatory authority (including recognised professional bodies); or
  - 5.5.7 has 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.
- 5.6 No loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director are outstanding.
- 5.7 Save as set out under the heading “Related Party Transactions” or “Relationship with Boris Kuzinez” in Part III of this document and in paragraph 8 of Part VII of this document, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.

## 6. Major Shareholders

- 6.1 Save as set out below, the Directors are not aware of any person who is interested, directly or indirectly, in three percent or more of the Company's issued share capital or voting rights as at 6 December 2006, being the last practicable date prior to the issue of this document and immediately following Admission. While, under Guernsey law, there is no requirement for a company's shareholders to disclose their interests, the Articles contain provisions pursuant to which Shareholders are required to disclose their interests above a certain threshold, as set out in paragraph 4.20 in Part VII of this document.

Name	Current		Immediately Following Admission and Offer <sup>(1)</sup>	
	Number of Ordinary Shares held	% of outstanding Ordinary Shares	Number of Ordinary Shares held	% of outstanding Ordinary Shares
D.E.S. <sup>(2)</sup> . . . . .	50,994,832	73.17%	50,994,832	51.62%
SSF III Father Holdings <sup>(3)</sup> . . . . .	9,090,909	13.04%	9,090,909	9.20%
Kensington Gore <sup>(4)</sup> . . . . .	8,702,137	12.49%	8,702,137	8.81%
Jacob Kriesler . . . . .	909,091	1.30%	909,091	0.92%
<b>Total</b> . . . . .	<b>69,696,969</b>	<b>100%</b>	<b>69,696,969</b>	<b>70.55%</b>

### Notes:

- (1) Assuming no exercise of the Over-allotment Option.
- (2) Boris Kuzinez is the beneficial owner of these Ordinary Shares through his beneficial interest in the entire issued share capital of D.E.S.
- (3) The entire issued share capital of SSF III Father Holdings is indirectly 100 percent owned by the Morgan Stanley group of companies.
- (4) Kensington Gore is a third party unconnected to the Group.
- 6.2 The Company's major Shareholders identified in paragraph 6.1 above, as holders of Ordinary Shares, have voting rights proportional to their holdings of such Ordinary Shares. Ordinary Shares carry one vote per Ordinary Share.
- 6.3 Save as set out in paragraph 6.1, the Directors are not aware of any person, directly or indirectly, jointly or severally, who owns and/or exercises or could exercise control over the Company. On 6 December 2006, D.E.S., Boris Kuzinez and the Company entered into the Relationship Agreement, which regulates the relationship between such parties, including undertakings regarding voting. Further details of the Relationship Agreement are set out in paragraph 9.31.
- 6.4 There are no arrangements known to the Company the operation of which may at a subsequent date result in a change in control of the Company.
- 6.5 Examples of past developments (which do not form part of the assets of the Group) in which Boris Kuzinez, together with various partners, has had substantial involvement include:
- 6, 15, 17 Korobeinikov Lane, a 34,000 square metre residential and commercial complex completed in 2003-2005;
  - 5 Butikovsky Lane, an 8,100 square metre residential complex completed in 2003-2004;
  - X-Park Rublyovo-Uspenskoye, an 8,000 square metre suburban settlement completed in 2001-2004;
  - 9-11, 13 Butikovsky Lane, an 18,000 square metre residential complex completed in 2001-2003;
  - Molochny Lane, a 950 square metre private residence completed in 2001-2003;
  - Aphanasievskiy Most, a 1,200 square metre office building completed in 2002;
  - 3 Molochny Lane, a 10,500 square metre residential complex completed in 2001-2002;
  - 19-21 Zachatievski Lane, a 5,000 square metre residential complex completed in 1999-2001;

- Romanov Dvor, a 7,000 square metre office building reconstruction completed in 1999;
- Myasnitskaya 24, a 3,500 square metre office building completed in 1997-1999.
- Shabolvka, a 2,350 square metre office building completed in 1997;
- Usacheva 22, a 2,000 square metre office building completed in 1996;
- Molochny Lane 5, a 1,850 square metre residential building completed in November 2006;
- Romanov Dvor, a 20,000 square metre office building completed between 2002 and 2004;<sup>(1)</sup>
- Mochovaya, a 15,000 square metre office building completed between 2002 and 2004;<sup>(1)</sup> and
- Grocholskiy, a 3,000 square metre office building completed between 2002 and 2004.<sup>(1)</sup>

**Notes:**

(1) Boris Kuzinez's involvement in these developments ceased between 2000 and 2002, prior to completion.

6.6 Set out below are illustrations of certain of the developments listed above (which do not form part of the assets of the Group).



**Shabolvka**



**Myasnitskaya 24**



**Usacheva 22**



**Romanov Dvor**



**Aphanasievskiy Most**



**3 Molochny Lane**

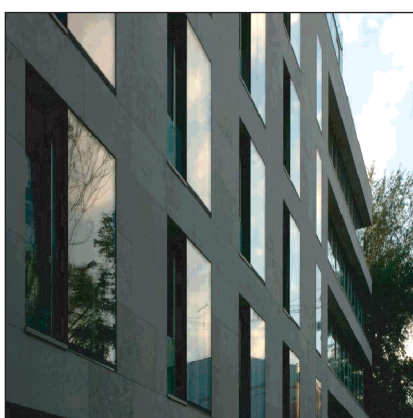




**5 Butikovskiy Lane**



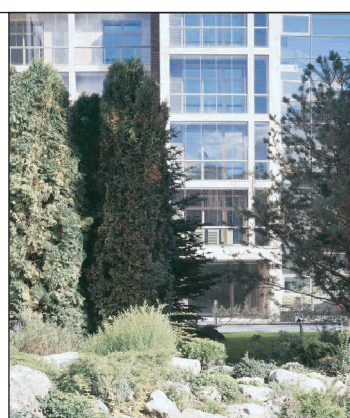
**19 -21 Zachatievskiy Lane**



**6, 15, 17 Korobeinikov Lane**



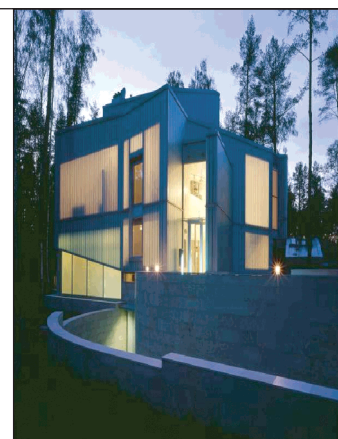
**9-11, 13 Butikovskiy Lane**



**Molochny lane**



**X-Park Rublyovo-Uspenskoye highway**



## **7. Directors' and Chief Executive's Service Agreements and Terms of Appointment**

### **7.1 Executive Directors**

The appointments of Jacob Kriesler, Mariana Golberg, Emanuel Kuzinets and Boris Kuzinez are on the terms of the respective service agreements with the Company entered into on 15 August

2006 (Mariana Golberg), 1 September 2006 (Jacob Kriesler and Emanuel Kuzinets) and 4 December 2006 (Boris Kuzinez). These include the following terms:

Director	Position	Notice Period	Basic Annual Salary
Boris Kuzinez . . . . .	Chief Executive	12 months	US\$1,500,000
Jacob Kriesler . . . . .	Executive Chairman	12 months	US\$100,000
Mariana Golberg . . . . .	Chief Financial Officer	2 months	US\$180,000
Emanuel Kuzinets . . . . .	Director	12 months	US\$100,000

The service agreements contain the following additional provisions which are or may be material:

- 7.1.1 Jacob Kriesler, Emanuel Kuzinets and Boris Kuzinez participate in a discretionary bonus scheme. Boris Kuzinez's service agreement provides that any discretionary bonus payable to him will be determined against a set of performance targets to be determined by the Remuneration Committee. It is envisaged that any bonus payments made to Jacob Kriesler and Emanuel Kuzinets will be subject to similar performance targets to be set by the Remuneration Committee. With respect to Boris Kuzinez, any bonus payments (in aggregate in any 12-month period) shall not exceed an amount equal to his gross annual salary.
- 7.1.2 Each service agreement contains a restrictive covenant applicable during the appointment which prevents each of the Directors from being (whether directly or indirectly) engaged or concerned in the conduct of or have any financial interest in any other actual or prospective business which is similar to or in competition with the business carried on by the Group or which may interfere, conflict or compete with the performance of the relevant Director's obligations to the Company.  
  
Jacob Kriesler, Emanuel Kuzinets and Mariana Golberg's service agreements provide that the restriction will not apply if the Board gives its prior written consent.  
  
With respect to Boris Kuzinez, he has agreed that during his tenure as Chief Executive, he will not be (whether directly or indirectly) engaged or concerned in the conduct of or have any financial interest in any other actual or prospective business which conducts office, retail or residential property development in the Russian Federation.
- 7.1.3 Each service agreement contains restrictive covenants applicable on termination of employment preventing the relevant individual from, *inter alia*, competing with the business in the geographic area constituting the market of the Group in which the relevant individual was materially concerned during the 12 months prior to termination, or from supplying real estate development and management services to customers of the Group with whom the relevant individual was materially concerned or had personal contact during the 12 months prior to termination, for 12 months after termination of employment in respect of Boris Kuzinez and the three months after termination of employment in respect of Jacob Kriesler, Emanuel Kuzinets and Mariana Golberg. Each service agreement also contains restrictive covenants applicable on termination of employment preventing the relevant individual from soliciting customers, suppliers or senior employees of the Group for 12 months after termination of employment in respect of Boris Kuzinez and three months after termination of employment in respect of Jacob Kriesler, Emanuel Kuzinets and Mariana Golberg. These restrictions do not prevent each Director from holding shares or securities of companies listed on any recognised stock exchange up to a maximum of five percent of the issued share capital of the relevant company.
- 7.1.4 Each service agreement contains provisions which protect the Group's intellectual property and confidential information.
- 7.1.5 The service agreement of Boris Kuzinez provides for Boris Kuzinez to devote at least 90 per cent of his time and attention to the activities of the Company.
- 7.1.6 The service agreements of Jacob Kriesler, Emanuel Kuzinets and Boris Kuzinez provide for the payment of relocation and other reasonable expenses by the Company.
- 7.1.7 The service agreement of Mariana Golberg provides for the payment by the Company of costs incurred in relation to her visa and work permit application, mobile phone rental costs, a return business class airline ticket to Israel three times a year, the use of a company car and the associated running costs and other general expenses incurred in the performance of her duties.

- 7.1.8 The service agreements of Jacob Kriesler, Emanuel Kuzinets and Boris Kuzinez provide that following the service of notice by either party to terminate the relevant Director's employment, the Company is obliged to make a payment in lieu of notice equivalent to the salary (at the date of termination of employment) which the Director would have received for the notice period. The Company may terminate the employment without notice or payment in lieu of notice if the Director commits an act of gross misconduct. No further benefits are payable to these individuals upon termination of employment.
- 7.1.9 Mariana Golberg's service agreement provides that following the service of notice by either party to terminate her employment, the Company may make a payment in lieu of notice equivalent to the salary and benefits (at the date of termination of employment) which the Director would have received for the notice period. The Company may terminate Mariana Golberg's employment without notice or payment in lieu of notice if she commits an act of gross misconduct. No further benefits are payable to Mariana Golberg upon termination of employment.
- 7.1.10 Mariana Golberg's service agreement provides that following the service of notice by either party to terminate her employment, the Company may put Mariana Golberg on garden leave for all or part of the notice period, during which time she may be excluded from the premises of any Group Company and may be required to perform different duties.
- 7.1.11 Mariana Golberg's service agreement contains an indemnity under which Mariana Golberg indemnifies every Group Company against liability to tax or other statutory deductions suffered in any jurisdiction in connection with her salary and benefits.
- 7.2 *Non-Executive Directors*
  - 7.2.1 Timothy Fenwick has been engaged by the Company as a non-executive Director under a letter of appointment dated 6 December 2006. The engagement is terminable on not less than three months' prior written notice given by either party. A fee of US\$30,000 per annum and a board meeting attendance fee of US\$1,000 per meeting are payable under the letter. Timothy Fenwick's appointment will terminate automatically if he is not re-elected to his position by the Shareholders.
  - 7.2.2 Rafael Eldor has been engaged by the Company as a non-executive Director under a letter of appointment dated 23 November 2006. The engagement is terminable on not less than three months' prior written notice given by either party. A fee of US\$30,000 per annum and a board meeting attendance fee of US\$1,000 per meeting are payable under the letter. Rafael Eldor's appointment will terminate automatically if he is not re-elected to his position by the Shareholders.
  - 7.2.3 Glenn Aaronson has been engaged by the Company as a non-executive Director under a letter of appointment dated 27 November 2006. The engagement is terminable on not less than three months' prior written notice given by either party. No fee is payable under the letter. Glenn Aaronson's appointment will terminate automatically if he is not re-elected to his position by the Shareholders or upon the written request of Morgan Stanley Real Estate Special Situations Fund III, L.P. or any of its affiliates.
- 7.3 Save as set out in paragraph 7.1 or 7.2 above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.
- 7.4 There is no arrangement under which any Director has waived or agreed to waive future emoluments.
- 7.5 Save as set out in the RGI Shareholders' Agreement and the Relationship Agreement, there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any Director was selected as a member of the Board or as a member of senior management.



- 7.6 The expiration of each Director's current term of office, if applicable, and the period during which that Director has served in such office is set out below:

<u>Name</u>	<u>Expiration of Current Term</u>	<u>Date of Appointment</u>
Boris Kuzinez	Not applicable	23 November 2006
Jacob Kriesler	Not applicable	13 July 2006
Emanuel Kuzinets	Not applicable	13 July 2006
Mariana Golberg	Not applicable	23 November 2006
Timothy Fenwick	Terminable on not less than three months' prior written notice subject to the Articles	23 November 2006
Rafael Eldor	Terminable on not less than three months' prior written notice subject to the Articles	23 November 2006
Glenn Aaronson	Terminable in accordance with the Articles or upon the written request of Morgan Stanley Special Situations Fund III, L.P. or any of its affiliates	27 September 2006

## 8. **Related Party Transactions**

The transactions described below are transactions which have been entered into by the Company or any other member of the Group during the period commencing on the earliest date covered by the historical financial information up to the date of this document with a related party and which are required to be disclosed in accordance with applicable accounting standards. Further details of some related party transactions are set out in Part III of this document under the heading "Information on the Group—Relationship with Boris Kuzinez".

### 8.1 *Acquisition Agreements*

The Group has acquired assets relating to the Tsvetnoy Development, the Butikovsky Development, the Zemlianoy Development, and the Ostozhenka Development, and the shares of each of Armix and Project Bureau either from companies controlled by, or persons connected with, Boris Kuzinez or, in respect of the Taganka Development, is expected to acquire such assets. Such acquisitions have been effected either through the transfer of companies which have rights in respect of the developments, or through the transfer of rights relating to the developments themselves. The relevant agreements are identified below and are summarised in paragraph 9 of Part VII of this document.

#### *Butikovsky Development*

Each of the Butikovsky Agreement on Share Participation, the Butikovsky Preliminary Agreement and the Butikovsky Agreement on Sale of Real Estate were, or are to be, entered into between Nospelt and Inpromtex. Inpromtex is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The consideration payable by Nospelt in relation to these agreements is below the estimated valuation provided by the Industry Consultant in respect of the Butikovsky Development.

In respect of the on-going construction of the Butikovsky Development, it is intended that the Group will, through sub-contracting arrangements, incur certain expenditure required to complete the Butikovsky Development, but will re-charge this to Inpromtex on a cost-plus basis. No formal agreement is in place in respect of this arrangement.

#### *Ostozhenka Development*

The First Ostozhie Share Purchase Agreement dated 15 June 2006 (as amended and restated on 10 August 2006) was entered into between Lemoriano Holdings and Inpromtex. Inpromtex is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The Second Ostozhie Share Purchase Agreement dated 15 June 2006 (as amended and restated on 10 August 2006) was entered into between Lemoriano Holdings and an individual connected to Boris Kuzinez. The consideration payable by Lemoriano Holdings in relation to these agreements

is below the estimated valuation provided by the Industry Consultant in respect of the Ostozhenka Development.

#### *Tsvetnoy Development*

The First Ling Investments Share Purchase Agreement dated 26 June 2006 was entered into between Toucho Investments and Denhurst View. Denhurst View is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The consideration payable by Toucho Investments in relation to this agreement is below the estimated valuation provided by the Industry Consultant in respect of the Tsvetnoy Development.

As described in paragraph 9.1 of Part VII of this document, pursuant to the First Ling Investments Share Purchase Agreement, two assignment agreements between Toucho Investments and Denhurst View have been entered into, transferring loans previously owing by Ling Investments to Denhurst View, to Toucho Investments.

#### *Zemlianoy Development*

The Canalet Holding Share Purchase Agreement dated 6 June 2006 was entered into between Toucho Investments, Teruel Investments and Whyre Holdings. Whyre Holdings is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The Second Dinas Share Purchase Agreement dated 29 June 2006 was entered into between Canalet Holding and an individual connected to Boris Kuzinez. The consideration payable by Toucho Investments, Teruel Investments and Canalet Holding in relation to these agreements is below the estimated valuation provided by the Industry Consultant in respect of the Zemlianoy Development.

#### *Project Bureau*

The First Project Bureau Share Purchase Agreement dated 30 June 2006 (as amended and restated on 15 November 2006) was entered into between Teruel Investments and Boris Kuzinez. The Second Project Bureau Share Purchase Agreement dated 30 June 2006 (as amended and restated on 15 November 2006) was entered into between Toucho Investments and Boris Kuzinez.

#### *Armix*

The First Armix Share Purchase Agreement dated 30 May 2006 (as amended and restated on 15 November 2006) was entered into between Teruel Investments and an individual connected to Boris Kuzinez. The Second Armix Share Purchase Agreement dated 30 May 2006 (as amended and restated on 15 November 2006) was entered into between Toucho Investments and an individual connected to Boris Kuzinez.

#### *Taganka Development: Pipeline property*

The LLC Directway Investments Share Purchase Agreement dated 15 November 2006 was entered into between Yialoka Holdings and Directway Investments. Directway Investments is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The consideration payable by Yialoka Holdings in relation to this agreement is below the estimated valuation provided by the Industry Consultant in respect of the Taganka Development.

### 8.2 *D.E.S. Loan Agreement*

On 21 September 2006, the Company entered into a loan agreement with D.E.S., a company beneficially owned by Boris Kuzinez, pursuant to which D.E.S. made a loan facility of up to US\$10,560,000 available to the Company. At the date of such loan agreement, D.E.S. had already advanced US\$5,559,168 to the Company, such amount to be treated as being drawn under the loan facility. Pursuant to the RGI Subscription Agreement, amounts outstanding in the amount of US\$5,559,168 were to be converted by way of a capital contribution (without the issue of shares). Such conversion was effected by a letter dated 27 September 2006, and therefore, at the date of this document, there are no amounts outstanding from the Company to D.E.S. in respect of such loan. D.E.S.'s obligations to make advances under the loan agreement has no specified expiry date, and the loan agreement does not specify whether amounts may be re-drawn down once repaid. No interest is payable in respect of amounts outstanding under the loan agreement and the loan agreement is therefore not on arm's length terms. There are no amounts currently outstanding under this loan agreement. The loan agreement is governed by English law.

### 8.3 *Directway Investments Loan Agreements*

On 20 December 2005, Dinas, as borrower, entered into an US\$850,000 loan agreement with Directway Investments, as lender. Directway Investments is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. Such loan agreement was entered into for the purpose of allowing Dinas to make certain payments under the Zemlianoy Co-Investment Contract. The interest rate is four percent per annum. There is a possibility that this interest rate may be considered to be below an arm's length interest rate. The term of the loan is for five years from the date of the loan agreement. The loan agreement is governed by the laws of the Russian Federation. To date, US\$850,000 has been advanced, and remains outstanding.

On 20 February 2006, Dinas, as borrower, entered into a US\$1,000,000 loan agreement with Directway Investments, as lender. By an amendment agreement dated 3 April 2006, this loan agreement was reduced to US\$350,000. Directway Investments is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. Such loan agreement was entered into for the purpose of financing and constructing the Zemlianoy Development. The interest rate is four percent per annum. There is a possibility that this interest rate may be considered to be below an arm's length interest rate. The term of the loan is for forty two months from the date of the loan agreement. The loan agreement is governed by the laws of the Russian Federation. To date, US\$350,000 has been advanced, and remains outstanding.

On 26 June 2006, Stolichnoe Podvorie, as borrower, entered into a Rouble 27,000,000 (approximately US\$997,000) loan agreement with Directway Investments, as lender. Directway Investments is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The loan agreement does not specify the purposes for which it is being made. The interest rate is nine percent per annum. There is a possibility that this interest rate may be considered to be below an arm's length interest rate. The loan is stated to be repayable not later than 27 June 2010. The loan agreement is governed by the laws of the Russian Federation. As at 8 November 2006, Rouble 24,600,000 (approximately US\$908,400) remained outstanding under this loan agreement, such amount being drawn down between July and September 2006.

### 8.4 *Inpromtex Loan Agreement*

On 6 December 2005, Dinas, as borrower, entered into a 1,000,000 Rouble (approximately US\$37,000) loan agreement with Inpromtex, as lender. Such loan agreement was entered into for the purpose of providing the Zemlianoy Bank Guarantee. Such guarantee expired on 30 June 2006. The interest rate is three percent per annum. There is a possibility that this interest rate may be considered to be below an arm's length interest rate. The loan is to be repaid prior to 31 December 2006. The loan agreement provides for the early repayment of all or part of the loan. Dinas' sole participant approved execution of the agreement on 5 December 2005. As at 30 June 2006, US\$ 37,664 remained outstanding.

### 8.5 *Lease Agreement*

On 12 September 2006, Armix, as tenant, entered into a preliminary lease agreement for non-residential premises (office space) with LLC Profit Invest ("Profit Invest"), as landlord. Profit Invest is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez.

Under this preliminary lease agreement, Armix and Profit Invest have undertaken to enter into both a short term lease and a long term lease of premises with a total area of 620 square metres located at 1 Korobeinikov Lane, Moscow. The short term lease is required to be entered into within ten business days of registration of Profit Invest's ownership rights to 1 Korobeinikov Lane, Moscow. Such registration is required to be made not later than on 31 March 2007. The short term lease will have effect from date an act of transfer and acceptance is executed, and will terminate upon state registration of the long term lease. The long term lease will terminate on 12 September 2011. Under the short term lease, rental payments to be paid by Armix amount to US\$64,830 per month. Under the long term lease, rental payments to be paid by Armix amount to US\$53,770 per month for the first year of the lease and US\$64,830 per month for the remaining lease term. All rent payments exclude VAT.

This preliminary lease agreement will continue in existence following Admission.

## 8.6 *Fit-out Works Agreement*

On 12 September 2006, Armix entered into an agreement with Solarium Holdings Limited (“Solarium Holdings”), pursuant to which Solarium Holdings undertakes to carry out fit-out works in respect of premises located at Korobeinikov Lane, Moscow, for the purpose of accommodation as an office. Solarium Holdings is indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez. The value of such fit-out works is US\$661,000 (including VAT). The fit-out is required to be completed not later than 12 March 2007.

This agreement will continue in existence following Admission.

## 8.7 *Design Project Agreement*

On 15 November 2005, Project Bureau, as project designer, entered into a design agreement with Inpromtex, as customer. Under this agreement, Project Bureau undertakes to develop architectural documentation for construction of the Butikovsky Development. Inpromtex agreed to pay Project Bureau US\$360,000 (including VAT) for such services. Project Bureau is entitled to subcontract, but remains liable for, its obligations under the agreement.

This agreement will continue in existence following Admission.

## 8.8 *RGI Shareholders’ Agreement and RGI Subscription Agreement*

In connection with SSF III Father Holdings’ investment in the Company, the Company, SSF III Father Holdings and D.E.S. entered into the RGI Subscription Agreement. Pursuant to this Agreement, D.E.S. agreed, among other things, to make certain capital contributions to the Company.

In connection with SSF III Father Holdings’ investment in the Company, the Company, SSF III Father Holdings and D.E.S. entered into the RGI Shareholders’ Agreement. Certain provisions of such agreement, which provide rights for SSF III Father Holdings and restrictions upon D.E.S., remain applicable following Admission.

Such agreements are summarised in paragraphs 9.25 and 9.26 of Part VII of this document.

# 9. **Material Contracts**

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

## *Butikovsky Development*

### 9.1 *Butikovsky Agreement on Share Participation*

Pursuant to the Butikovsky Agreement on Share Participation dated 23 October 2006 (as amended on 15 November 2006), Inpromtex and Nospelt agreed that Nospelt would participate in the financing of the construction of, and obtain ownership rights to 70 percent of the Butikovsky Development, comprising 3,132.5 square metres above ground and 3,117.8 square metres (comprising 68 parking spaces and 70 percent of the common areas and the service areas) in the underground car park. The future construction financing payable to Inpromtex by Nospelt amounts to US\$16,200,000 (the “Participant’s Contribution”), to be paid in instalments. Such future construction financing includes payment to Inpromtex for expenses Inpromtex incurs in connection with the construction of the Butikovsky Development and payment for Inpromtex’s services. In the event of a delay in payment of the Participant’s Contribution by Nospelt, a penalty in the amount of 1/300th of the refinancing rate of the Central Bank of the Russian Federation will be charged on the overdue sum for each day of delay, unless the delay is due to Inpromtex’s actions or omissions. Nospelt shall pay all expenses incurred in connection with the state registration of the transfer of the rights of ownership in the completed development.

Within seven business days of the issue of a commissioning permit (a final approval required in respect of a newly constructed building prior to registration of ownership rights) by the prefect of the Central Administrative District of Moscow, Inpromtex will transfer 70 percent of the Butikovsky Development to Nospelt but such transfer shall occur no later than 30 October 2007. In the event of a delay in transfer of the premises by Inpromtex, a penalty in the amount of 1/300th of the refinancing rate of the Central Bank of the Russian Federation will be charged to

Inpromtex on the amount of the Participant's Contribution for each day of delay, unless the delay is due to Nospelt's actions or omissions. Nospelt is entitled to access to the premises before such premises are transferred to it in order to perform fit-out, provided that Nospelt guarantees to compensate Inpromtex for damage caused to the premises during this process. In addition, Nospelt is required to agree to any amendments to the design documentation of the premises provided that such new design documentation receives all relevant regulatory approvals and the total area of the premises to be transferred to Nospelt comprises 70 percent of the entire area of the Butikovsky Development. Nospelt shall acquire such ownership rights upon state registration of its ownership rights.

Inpromtex provides certain warranties which entitle Nospelt to claim damages in the event of breach of such warranties, provided that Inpromtex shall only be obliged to pay such damages to Nospelt if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. Nospelt provides certain warranties which entitle Inpromtex to claim damages in the event of breach of such warranties.

The parties may terminate the agreement with the consent of the other party. Inpromtex may withdraw from the agreement in accordance with the procedure set forth under Russian federal law. Nospelt may withdraw from the agreement in certain circumstances, including if Inpromtex delays in the transfer of 70 percent of the Butikovsky Development to Nospelt. In the event that Nospelt withdraws from the agreement, Inpromtex shall return any consideration paid by Nospelt (i.e. the installments paid to such date of termination in respect of construction) together with interest on the returned amount at 1/300th of the Central Bank of the Russian Federation refinancing rate. In the event that Nospelt does not become the registered owner of 70 percent of 15 Butikovsky Lane in accordance with the agreement, Inpromtex will return all instalments paid by Nospelt. The Butikovsky Agreement on Share Participation is governed by the laws of the Russian Federation.

## 9.2 *Butikovsky Preliminary Agreement*

Pursuant to the Butikovsky Preliminary Agreement dated 23 October 2006, Inpromtex and Nospelt agreed to execute the Butikovsky Agreement on Sale of Real Estate (as detailed in paragraph 9.3 below) relating to the sale by Inpromtex to Nospelt of 30 percent of the completed Butikovsky Development comprising 1,342.5 square metres above ground and approximately 1,336.2 square metres (comprising 29 parking spaces and 30 percent of the common areas and the services areas) in the underground car park.

Pursuant to the Butikovsky Preliminary Agreement, Nospelt is required to agree to modifications to the design documentation in respect of the Butikovsky Development, provided that such new design documentation receives all relevant regulatory approvals and the total area of the premises to be transferred to Nospelt comprises 30 percent of the entire area of the Butikovsky Development. Nospelt shall be entitled to access the premises before such premises are transferred to it in order to perform fit-out, provided that Nospelt guarantees to compensate Inpromtex for damage caused to the development or third parties during this process. The Butikovsky Preliminary Agreement shall terminate on the earlier of (i) the execution of the Butikovsky Agreement on Sale of Real Estate and (ii) 23 October 2008.

Each party to the agreement provides the other with certain warranties which entitle such other party to claim damages in the event of breach of such warranties, provided that in the case of Inpromtex only, Inpromtex shall only be obliged to pay such damages to Nospelt if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. The Butikovsky Preliminary Agreement is governed by the laws of the Russian Federation.

In the event that Inpromtex is not able to acquire the share in the Butikovsky Development held by the Moscow Government pursuant to the Butikovsky Preliminary Agreement, Inpromtex shall procure registration of its ownership right to its 20 percent interest in the completed office building and 10 percent interest in the underground car park, and shall transfer such interests to Nospelt pursuant to the Butikovsky Agreement on Sale of Real Estate. In such event, the consideration payable by Nospelt shall be reduced on a pro-rata basis.



### 9.3 *Butikovsky Agreement on Sale of Real Estate*

Pursuant to the Butikovsky Preliminary Agreement dated 23 October 2006 (as detailed in paragraph 9.2 above) Inpromtex and Nospelt have agreed to enter into the Butikovsky Agreement on Sale of Real Estate pursuant to which Inpromtex shall sell to Nospelt 30 percent of the completed Butikovsky Development, comprising 1,342.5 square metres above ground and approximately 1,336.2 square metres (comprising 29 parking spaces and 30 percent of the common areas and the services areas) in the underground car park. Under the Butikovsky Preliminary Agreement, the Butikovsky Agreement on Sale of Real Estate is required to be signed within five business days of the date of issue of the certificate of state registration of Inpromtex's rights of ownership in respect of such interest by the relevant Moscow authority. Inpromtex is required to transfer an interest equal to 30 percent of the Butikovsky Development to Nospelt upon execution of such agreement. Nospelt will acquire ownership rights to such 30 percent interest upon state registration of the transfer of such rights.

The consideration payable by Nospelt under the Butikovsky Agreement on Sale of Real Estate is US\$7,000,000 (plus VAT), such amount to be paid within ten business days following state registration of the transfer to Nospelt of ownership rights to such 30 percent interest. Such consideration includes the cost of any improvements made at the date of the state registration of the transfer of the rights of ownership. Nospelt is required to pay all expenses incurred in connection with state registration of such transfer of ownership rights.

Each party to the agreement provides the other with certain warranties which entitle such other party to claim damages in the event of breach of such warranties, provided that in the case of Inpromtex only, Inpromtex shall only be obliged to pay such damages to Nospelt if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. The Butikovsky Agreement on Sale of Real Estate is governed by the laws of the Russian Federation.

### 9.4 *Butikovsky Investment Contract*

Pursuant to the Butikovsky Investment Contract dated 25 October 2005, Inpromtex and the Moscow Government undertook to construct the Butikovsky Development, on the basis that the Moscow Government contributed the Old Butikovsky Building to the project and granted Inpromtex the Butikovsky Land Lease. Inpromtex provided financing for the project in the amount of US\$6,000,000 and was responsible for the physical relocation of Efir to new premises (which premises Inpromtex was not required to purchase or finance). The Butikovsky Investment Contract originally provided for the following basic distribution of ownership rights to the Butikovsky Development: (i) total non-residential area of the building: 60 percent—Inpromtex; 30 percent—Russian Federation (Efir) and 10 percent—Moscow Government; and (ii) car parking area: 80 percent—Inpromtex and 20 percent—Moscow Government.

However, Resolution No. 297-RP dated 27 February 2004, which constitutes the underlying legal foundation for the Butikovsky Investment Contract, was subsequently amended to provide for the following distribution of ownership rights to the Butikovsky Development: (i) total non-residential area of the building: 90 percent—Inpromtex (subject to payment by Inpromtex of 58,204,000 Roubles (approximately US\$2,149,000) for capital repair of the building located at building 5, Lubianka Street 18/9, Moscow, in connection with the relocation of Efir from the Old Butikovsky Building), 10 percent—Moscow Government; and (ii) car parking area: 80 percent—Inpromtex; 20 percent—Moscow Government. By an amendment agreement dated 4 September 2006, the Butikovsky Investment Contract was amended to reflect these revised proportions.

An amendment agreement to the Butikovsky Investment Contract dated 4 September 2006 formalised the extension of the term of the Butikovsky Investment Contract until 31 December 2006. Following 31 December 2006, the Group will need to apply for an extension of the Butikovsky Investment Contract. Although such extensions are usually granted, there can be no assurance that such an extension will be granted.

### 9.5 *Butikovsky Land Lease*

Pursuant to the Butikovsky Land Lease dated 16 November 2005, Inpromtex leases a land plot with a total area of 0.208 hectares for the purpose of construction of the Butikovsky Development. The Butikovsky Land Lease contains a precise description of the leased property



and defines the amount of the lease rent. The annual rent is 1,198,499.33 Roubles (approximately US\$44,300). The Moscow Government can (consistent with Moscow market practice), annually, without the consent of the tenant, change the amount of rent payable if legislation establishing the rates of the rent payments for the use of state-owned land is changed. Under the Butikovsky Land Lease, the rights of Inpromtex can be assigned to third parties only with the written consent of the Moscow Department of Land Resources (as landlord).

The Butikovsky Land Lease originally expired on 31 December 2005, but, by an undated additional agreement, was subsequently extended to 31 December 2006. Although it is not possible to determine whether the term of the extended lease is greater than one year, such agreements with a term of greater than one year require registration with the relevant state authority. In the absence of such state registration, the additional agreement to extend such lease may not have been validly concluded. Inpromtex is not seeking such registration as the time required to complete such registration is likely to comprise a substantial portion of the remaining term of the lease. As the construction of the Butikovsky Development is not anticipated to be completed until the second quarter of 2007, Inpromtex will need to seek a further extension of the Butikovsky Land Lease. Although the relevant Moscow state authorities are not obliged to extend such lease, it is common practice to grant such an extension in order to enable completion of construction of a development which has already commenced.

#### *Ostozhenka Development*

##### *9.6 Lemoriano Holdings Share Purchase Agreement*

Pursuant to the Lemoriano Holdings Share Purchase Agreement dated 10 May 2006, Teruel Investments acquired one percent of the issued share capital of Lemoriano Holdings from Toucho Investments. The consideration payable by Teruel Investments was c£10 pounds. Teruel Investments was registered as the holder of such shares on 17 July 2006. The agreement is governed by the laws of the Republic of Cyprus.

##### *9.7 Ostozhie Share Purchase Agreements*

Pursuant to the First Ostozhie Share Purchase Agreement dated 15 June 2006 (as amended and restated on 10 August 2006), Lemoriano Holdings acquired 95 percent of the charter capital of Ostozhie from Inpromtex. The consideration payable by Lemoriano Holdings was US\$1,472,500. Pursuant to the Second Ostozhie Share Purchase Agreement dated 15 June 2006 (as amended and restated on 10 August 2006), Lemoriano Holdings acquired five percent of the charter capital of Ostozhie from an individual connected to Boris Kuzinez. The consideration payable by Lemoriano Holdings was US\$77,500. The consideration under each agreement is to be paid to Inpromtex and such individual, respectively, by the earlier of Admission and 31 March 2007. The legal and beneficial ownership of the charter capital was transferred to Lemoriano Holdings upon signing of the respective agreements on 15 June 2006, subject to the provisions of the Federal Law No. 14-FZ On Limited Liability Companies dated 8 February 1998 and notification of Ostozhie of the completed share transfer. Relevant amendments to Ostozhie's charter reflecting the changes of holding were registered on 4 July 2006. Each of Inpromtex and such individual provide certain warranties under the respective share purchase agreements to which they are a party which entitle Lemoriano Holdings to claim damages in the event of breach, provided that Inpromtex or such individual, as the case may be, shall only be obliged to pay such damages to Lemoriano Holdings if the aggregate amount of the claims under the relevant agreement(s) to which they are a party exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. The above agreements are governed by the laws of the Russian Federation.

##### *9.8 Contribution to the charter capital of Ostozhie*

Pursuant to a contribution to its capital by Inpromtex and an individual connected to Boris Kuzinez, Ostozhie acquired ownership rights to the Ostozhenka Building. Such contribution was effected by a revised charter of Ostozhie, approved on 14 November 2005, and an Act of Transfer and Acceptance dated 30 November 2005. The Certificate of Registration of Rights in respect of this office building was issued by the Administration of the Federal Registration Service for Moscow on 27 December 2005. There is a risk that such contribution was effected in a manner inconsistent with Russian law, as summarised in Part III of this document under the heading "The Group's Current Property Developments".

## 9.9 *2001 Ostozhenka Land Lease*

Inpromtex (as tenant) and the Moscow Government (as landlord) entered into the 2001 Ostozhenka Land Lease on 11 October 2001. Pursuant to this lease agreement, Inpromtex leases a land plot with a total area of 0.022 hectares located at building 3, 37/7 Ostozhenka Street, Moscow. The annual rent is 151,412.98 Roubles (approximately US\$5,600). The Moscow Government can (consistent with Moscow market practice), annually, without the consent of Inpromtex, as tenant, change the amount of rent payable if legislation establishing the rates of the rent payments for the use of state-owned land is changed. The term of the lease is twenty four years, expiring on 19 October 2025. The 2001 Ostozhenka Land Lease has been registered in the Register of Immovables. The land plot in respect of this lease was allocated to Inpromtex as the owner of the Ostozhenka Building. Pursuant to the Land Code, if a building is purchased, the new owner of the building acquires the same rights to the land plot underlying the building that the previous owner had. Therefore, upon Ostozhie's acquisition of the Ostozhenka Building from Inpromtex in 2005, Ostozhie also acquired Inpromtex's rights under the 2001 Ostozhenka Land Lease. An amendment to the 2001 Ostozhenka Land Lease formalising Ostozhie's rights under this lease is in the process of registration with the relevant state authorities.

### *Tsvetnoy Development*

## 9.10 *First Ling Investments Share Purchase Agreement*

Pursuant to the First Ling Investments Share Purchase Agreement dated 26 June 2006 (as amended and restated on 15 November 2006), Toucho Investments acquired 60 percent of the issued share capital of Ling Investments from Denhurst View. The consideration payable by Toucho Investments of US\$2,000,000 was paid to Denhurst View on 5 October 2006. Toucho Investments was registered as holder of such shares on 27 June 2006. A letter of waiver dated 12 June 2006 has been provided by Hinter View waiving all pre-emptive rights it has in relation to Toucho Investments' acquisition of 60 percent of such share capital. Denhurst View provides certain warranties under the agreement which entitle Toucho Investments to claim damages in the event of breach of any of the warranties, provided that Denhurst View shall only be obliged to pay such damages to Toucho Investments if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. This agreement is governed by the laws of the Republic of Cyprus.

The First Ling Investments Share Purchase Agreement also provides that the rights of Denhurst View, as lender to Ling Investments under certain loan agreements, shall be assigned and transferred from Denhurst View to Toucho Investments, such assignment and transfer to be effected through separate assignment agreements. Such loan agreements consist of a loan agreement dated 25 February 2005 in the amount of US\$3,600,000 between Denhurst View (as lender) and Ling Investments (as borrower) and a loan agreement dated 5 April 2006, as amended on 25 June 2006, in the amount of US\$3,000,000 between Denhurst View (as lender) and Ling Investments (as borrower). Each loan agreement bears interest at a rate of 5.5 percent per annum. Assignment agreements have been entered into to this effect. The consideration payable under such assignment agreements amounts to US\$3,831,971 in respect of the loan agreement dated 25 February 2005 and US\$903,616 in respect of the loan agreement dated 5 April 2006 (as amended on 25 June 2006), such sums comprising the outstanding amount of such loans and accrued interest. The sum of US\$3,831,971 in respect of the loan agreement dated 25 February 2005 was paid by Toucho Investments to Denhurst View on 5 October 2006. The remaining US\$903,616 in respect of the loan agreement dated 5 April 2006 (as amended on 25 June 2006) is to be payable by Toucho Investments no later than 15 December 2006.

## 9.11 *Second Ling Investments Share Purchase Agreement*

Pursuant to the Second Ling Investments Share Purchase Agreement dated 7 November 2006, Toucho Investments acquired 39 percent of the issued share capital of Ling Investments from Hinter View. The consideration payable by Toucho Investments is US\$1,365,000. Pursuant to this agreement, Teruel Investments acquired one percent of the issued share capital of Ling Investments from Hinter View. The consideration payable by Teruel Investments is US\$35,000. The consideration payable by each of Toucho Investments and Teruel Investments to Hinter View was paid on 7 November 2006. Each of Toucho Investments and Teruel Investments was registered as holder of their respective shares on 7 November 2006. Hinter View provides certain

warranties under the agreement which entitle Toucho Investments and Teruel Investments respectively to claim damages in the event of breach of any of the warranties. This agreement is governed by the laws of the Republic of Cyprus.

The Second Ling Investments Share Purchase Agreement also provides that the rights of Hinter View, as lender to Ling Investments under certain loan agreements, shall be transferred from Hinter View to Toucho Investments, such transfer to be effected through a separate transfer agreement. Such loan agreements consist of a loan agreement dated 25 February 2005 in the amount of US\$2,400,000 between Hinter View (as lender) and Ling Investments (as borrower) and a loan agreement dated 5 April 2006, as amended on 25 June 2006, in the amount of US\$2,000,000 between Hinter View (as lender) and Ling Investments (as borrower). Each loan agreement bears interest at a rate of 5.5 percent per annum. A transfer agreement dated 7 November 2006 between Hinter View, Toucho Investments and Ling Investments has been entered into to this effect. The consideration payable under such transfer agreement amounts to US\$2,665,827 in respect of the loan agreement dated 25 February 2005 (to be payable by Toucho Investments to Hinter View no later than 1 May 2007) and US\$1,337,348 in respect of the loan agreement dated 5 April 2006 (as amended on 25 June 2006) (to be payable by Toucho Investments to Hinter View no later than 1 February 2007), such sums comprising the outstanding amount of such loans and accrued interest and all applicable taxes. This agreement is governed by the laws of the Republic of Cyprus.

9.12 *Central Market Share Purchase Agreement*

Pursuant to the Central Market Share Purchase Agreement dated 29 December 2004, Ling Investments acquired 100 percent of the charter capital of Central Market from Stolichnye Gastronomy. The purchase price was 1,000,000 Roubles (approximately US\$37,000) which was paid on 1 February 2005. Transfer of the charter capital was completed on 30 December 2004 and relevant amendments to Central Market's charter reflecting the change of holding were registered on 31 January 2005. This agreement is governed by the laws of the Russian Federation.

9.13 *Tsvetnoy Building Share Purchase Agreement*

Central Market acquired the dilapidated Tsvetnoy Building from Stolichnye Gastronomy pursuant to the Tsvetnoy Building Share Purchase Agreement. The purchase price for the Tsvetnoy Building was equivalent to 119,000,000 Roubles (approximately US\$4,400,000). On 5 March 2005, Central Market paid such purchase price in full. Central Market's ownership right to the Tsvetnoy Building was registered in the Register of Immovables on 5 August 2004. This agreement is governed by the laws of the Russian Federation.

9.14 *Tsvetnoy Land Lease*

Stolichnye Gastronomy (as tenant) and the Moscow Government (as landlord) entered into the Tsvetnoy Land Lease on 15 May 2002. Pursuant to the Tsvetnoy Land Lease, Stolichnye Gastronomy leased the Tsvetnoy Initial Land Plot for the purpose of construction of a shopping centre with an approximate area of 32,587 square metres. The term of the Tsvetnoy Land Lease is forty-nine years. Central Market acquired lease rights under the Tsvetnoy Land Lease from Stolichnye Gastronomy by operation of law when Central Market acquired the existing dilapidated Tsvetnoy Building. Pursuant to the Tsvetnoy Land Lease Addendum dated 8 September 2004, Stolichnye Gastronomy's rights and obligations under the Tsvetnoy Land Lease were transferred to Central Market. This addendum was duly registered on 14 October 2004.

The Tsvetnoy Land Lease contains a precise description of the leased property and defines the annual rent for the Tsvetnoy Land Plot at 1,202,020 Roubles (approximately US\$44,400). However, the Moscow Government can (consistent with Moscow market practice), annually, without the consent of the tenant, change the amount of rent payable if legislation establishing the rates of the rent payments for the use of state-owned land is changed.

Being for a term of greater than one year, the Tsvetnoy Land Lease was duly registered in the Register of Immovables. The Moscow Government is entitled to unilaterally terminate the agreement through the courts, if Central Market violates any terms of the Tsvetnoy Land Lease, in particular: (a) a delay of more than sixty (60) days on two occasions in paying the required rent; (b) use of the Tsvetnoy Land Plot is not in compliance with its purpose of use (being

specified as the operation of a trade and administrative complex); and (c) failure to comply with the requirements in Chapter 4 of the Tsvetnoy Land Lease. Under Chapter 4 of the Tsvetnoy Land Lease, Stolichnye Gastronomy was obliged to complete construction on the Tsvetnoy Land Plot by 1 February 2004. Since Central Market acquired all the rights and obligations of Stolichnye Gastronomy under the Tsvetnoy Land Lease, it appears that Central Market is also obliged to comply with the requirements of Chapter 4 of the Tsvetnoy Land Lease. However, the risk of unilateral termination of the Tsvetnoy Land Lease by the Moscow Government is mitigated by the fact that the Moscow Government issued Resolution No. 1913-RP, which approved construction of the Tsvetnoy Development up to the end of 2007.

#### *Taganka Development*

##### 9.15 *LLC Directway Investments Share Purchase Agreement*

Pursuant to the LLC Directway Investments Share Purchase Agreement dated 15 November 2006, Yialoka Holdings acquired 100 percent of the charter capital of LLC Directway Investments. The aggregate consideration payable for such acquisition is US\$5,200,000. Payment of such amount is conditional upon a resolution permitting the Group to construct the Taganka Development being issued, and in such event, payment is to be made within 60 days of such resolution being issued by the Moscow Government. In the event such resolution is not granted within six months of the date of the agreement, Yialoka Holdings is not obliged to complete the purchase. In the event such resolution is not granted within 12 months of the date of the agreement, Directway Investments is not obliged to complete the purchase. Relevant amendments to LLC Directway Investments' charter reflecting the changes of holding are expected to be registered in due course. The legal and beneficial ownership of the charter capital was transferred to Yialoka Holdings upon signing of the agreement, subject to the provisions of the Federal Law No. 14-FZ On Limited Liability Companies dated 8 February 1998 and notification of Directway Investments of the completed share transfer. Directway Investments provides certain warranties under each agreement which entitle Yialoka Holdings to claim damages in the event of breach of any of the warranties, provided that Directway Investments shall only be obliged to pay such damages to Yialoka Holdings if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. This agreement is governed by the laws of the Russian Federation.

#### *Zemlianoy Development*

##### 9.16 *Canalet Holding Share Purchase Agreement*

Pursuant to the Canalet Holding Share Purchase Agreement dated 6 June 2006, Toucho Investments acquired 99 percent of the issued share capital of Canalet Holding and Teruel Investments acquired one percent of the issued share capital of Canalet Holding, in each case from Whyre Holdings. The consideration payable by Toucho Investments of US\$1,188,000 and by Teruel Investments of US\$12,000 was paid to Whyre Holdings on 2 November 2006. Toucho Investments and Teruel Investments were registered as holders of their respective shares on 14 June 2006. In connection with Admission, the Canalet Holding Share Purchase Agreement is in the process of being amended such that Whyre Holdings will provide certain warranties which will entitle each of Toucho Investments and Teruel Investments to claim damages in the event of breach of such warranties, provided that Whyre Holdings shall only be obliged to pay such damages to Toucho Investments or Teruel Investments, as the case may be, if the aggregate amount of the claims under the agreement exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. The Canalet Holding Share Purchase Agreement is governed by the laws of the Republic of Cyprus.

##### 9.17 *Dinas Share Purchase Agreements*

Pursuant to the First Dinas Share Purchase Agreement dated 10 March 2006 (as amended and restated on 8 May 2006), Canalet Holding acquired 99 percent of the charter capital of Dinas from an individual connected to Boris Kuzinez. The consideration payable by Canalet Holding was 60,000 Roubles (approximately US\$2,200). Pursuant to the Second Dinas Share Purchase Agreement dated 29 June 2006 (as amended and restated on 25 August 2006), Canalet Holding acquired one percent of the charter capital of Dinas from such individual. The consideration payable by Canalet Holding was 700 Roubles (approximately US\$26). The consideration payable under each agreement was paid to such individual on 25 October 2006. The legal and beneficial



ownership of the charter capital was transferred to Canalet Holding upon execution of the First Dinas Share Purchase Agreement and the Second Dinas Share Purchase Agreement on 10 March 2006 and 29 June 2006, respectively, subject to the provisions of the Federal Law No. 14-FZ On Limited Liability Companies dated 8 February 1998 and notification of Dinas of the completed share transfer. Relevant amendments to Dinas' charter reflecting the changes of holding were registered on 9 August 2006. The relevant individual provides certain warranties under each agreement which entitle Canalet Holding to damages in the event of breach of such warranties, provided that such individual shall only be obliged to pay such damages to Canalet Holding if the aggregate amount of the claims under the relevant agreement exceeds US\$250,000 and only for such amount in excess of the US\$ 250,000 threshold. Both agreements are governed by the laws of the Russian Federation.

9.18 *Zemlianoy Co-Investment Contract*

Pursuant to the Zemlianoy Co-Investment Contract dated 22 December 2005, Dinas and DIPS undertook to construct a new administrative non-residential building with a total area of 9,480 square metres. Upon the completion of construction of the Zemlianoy Development, Dinas is entitled to acquire 95 percent of the non-residential area of the development (approximately 7,190 square metres) and 95 percent of the parking spaces (approximately 40 parking spaces). DIPS will be entitled to acquire five percent of the non-residential area of the development (approximately 378.4 square metres) and five percent of the parking spaces (approximately two parking spaces). Each of Dinas and DIPS' shares are subject to the prior transfer to the Department of Property of the City of Moscow of approximately 37.6 square metres (equivalent to the area that was owned by the Moscow Government in the Zemlianoy Building before its recognition as being dangerous for use). Under the Zemlianoy Co-Investment Contract, Dinas is obliged to provide financing for the construction of the Zemlianoy Development in the amount of 226,119,380 Roubles (approximately US\$8,350,000). This amount includes an investment contribution of 118,500,000 Roubles (approximately US\$4,376,000) for engineering infrastructure, design works, and similar matters. Dinas must also compensate DIPS for certain other costs incurred by DIPS relating to the Zemlianoy Development prior to entering into the Zemlianoy Investment Contract, and also pay 0.6 percent of the eventual sale price of the Zemlianoy Development, as compensation to the State Unitary Enterprise "Moszhilkompleks" for the costs associated with technical services and utilities. The meaning of the phrase in the Zemlianoy Co-investment Contract "sale price of the premises" and how this price will be defined is unclear.

Pursuant to the Zemlianoy Co-Investment Contract, DIPS is entitled to unilaterally terminate the agreement in an out-of-court procedure if Dinas fails to make payments due to DIPS more than ninety (90) days from the due date. Dinas is only entitled to assign its rights under the Zemlianoy Co-Investment Contract after full performance of payments for the investment contribution described above and payment of certain other costs.

The Zemlianoy Co-Investment Contract does not provide for Dinas' right to request and review the preliminary design and design construction documentation, or to request reports from DIPS on the development of the construction process. Therefore, Dinas is not entitled to directly control the construction of the Zemlianoy Development. See "The Group's Current Property Developments-Current Status of the Zemlianoy Development".

*Khilkov Development*

9.19 *Lafar Management Share Purchase Agreement*

Pursuant to the Lafar Management Share Purchase Agreement dated 19 September 2006, Litonor Financial agreed to sell 50 percent of the issued share capital of Lafar Management to Toucho Investments. The total consideration payable by Toucho Investments for such acquisition was US\$24,822,480, payable in stages. US\$2,422,480 is payable before 30 September 2006, a further US\$2,400,000 is payable before 15 December 2006, and US\$20,000,000 is payable in accordance with a schedule to be agreed between Toucho Investments and Litonor Financial. Toucho Investments paid the amount of US\$2,422,480 on 28 September 2006. Pursuant to the Lafar Management Share Purchase Agreement, the shares in Lafar Management are to be registered in the name of Toucho Investments in stages. Rights to 25 percent of Lafar Management's issued share capital are to be registered in the name of Toucho Investments upon



execution of the Lafar Management Share Purchase Agreement, a further 12.5 percent after the aggregate payments reach US\$14,100,000 and the remaining 12.5 percent after the aggregate payments reach US\$19,500,000. Under the Lafar Management Share Purchase Agreement, Toucho Investments has the right to appoint one of the two directors of Lafar Management.

Pursuant to the Lafar Management Share Purchase Agreement, Litonor Financial confirms to Toucho Investments that at the date of such agreement, Lafar Management has no obligations in respect of third parties, save for an obligation to pay the required consideration under the Stolichnoe Podvorie Share Purchase Agreement.

Pursuant to the Lafar Management Share Purchase Agreement, Toucho Investments and Litonor Financial agree that the consideration payable by Toucho Investments is based upon, among other things, the existence of Resolution No. 837-RP, the possibility of construction of the Khilkov Complex on the relevant land plots within the borderlines indicated in Resolution No. 837-RP and the conclusion within reasonable time limits of an investment contract between Stolichnoe Podvorie and the Moscow Government. In the event that construction of the Khilkov Complex cannot occur due to cancellation or amendment of Resolution No. 837-RP and/or non-conclusion, abolition or amendments to the intended investment contract and/or a court ruling or any other event beyond the control of Toucho Investments, Toucho Investments shall be entitled to terminate the Lafar Management Share Purchase Agreement. In such event, Litonor Financial shall return amounts received from Toucho Investments and shall be liable for any direct losses suffered by Toucho Investments.

Litonor Financial gives certain representations and warranties to Toucho Investments under the Lafar Management Share Purchase Agreement. This agreement is governed by the laws of the Republic of Cyprus.

#### 9.20 *Lafar Management Partnership Agreement*

In relation to Lafar Management and in connection with the Lafar Management Share Purchase Agreement, on 19 September 2006 Toucho Investments entered into the Lafar Management Partnership Agreement with Litonor Financial (the holder of the issued share capital of Lafar Management not held by Toucho Investments). Effective from 19 September 2006, Litonor Financial and Toucho Investments agree to share equally the financing obligations and profit earned from development projects undertaken by Lafar Management and Stolichnoe Podvorie. Decisions affecting Lafar Management are to be taken jointly, save for decisions allocated to a jointly-appointed manager. Each of Toucho Investments and Litonor Financial are entitled to appoint and remove one director of Lafar Management. Once Toucho Investments is registered as the holder of 50 percent of the issued share capital of Lafar Management, each of Litonor Financial and Toucho Investments will increase Lafar Management's issued share capital to 4,000,000 Roubles (approximately US\$147,700) and each will contribute US\$80,000 to fund such increase. Upon such amounts being contributed, Lafar Management is to contribute 3,997,950 Roubles (approximately US\$147,600) to increase the charter capital of Stolichnoe Podvorie. Pursuant to the Lafar Management Partnership Agreement, each of Litonor Financial and Toucho Investments agree to enter into loan agreements to grant Lafar Management a loan in the amount of US\$2,446,480. The terms of these loan agreements are described in paragraph 9.21.

Pursuant to the Lafar Management Partnership Agreement, Litonor Financial and Toucho Investments have agreed to consider the joint development of other projects, in addition to the Khilkov Complex, and for the purpose of management of such developments, to jointly appoint a manager for such projects. Each of Litonor Financial and Toucho Investments has a right of first refusal to purchase the other's shares in Lafar Management, however, prior to 1 September 2008, neither party may offer to sell their shares in Lafar Management or its participation in any development project of the Company to a third party without the consent of the other party. If either party seeks to re-invest its share of the profits obtained from a development into new projects and the other party is unwilling to do so, the first party shall be entitled to purchase that 50 percent of the shares in Lafar Management held by the unwilling party at an agreed independent valuation. As each of Litonor Financial and Toucho Investments are entitled to appoint a director to the board of Lafar Management, in the event of a failure to agree on matters required for the operation of Lafar Management, in the absence of an offer from one

party to acquire 100 percent of the other party's shares in Lafar Management, both parties are required to offer 100 percent of Lafar Management's issued share capital for sale to a third party.

Pursuant to the Lafar Management Partnership Agreement, Litonor Financial gives certain representations and warranties to Toucho Investments, including in relation to the business of Lafar Management and Stolichnoe Podvorie. The Lafar Management Partnership Agreement is governed by the laws of the Republic of Cyprus.

Appended to the Lafar Management Partnership Agreement is a management agreement dated 19 September 2006 between Litonor Financial and Toucho Investments which details the responsibilities of such parties in respect of construction of the Khilkov Development. Pursuant to this management agreement, Toucho Investments is appointed as manager of the project. Litonor Financial and Toucho Investments have agreed that Lafar Management and Nospelt shall enter into a co-investment contract pursuant to which Lafar Management and Nospelt shall seek to sell the completed Khilkov Development to third parties. Nospelt would be entitled to 20 percent of any profit of such co-investment contract. As an alternative to entering such ordinary partnership, Litonor Financial and Toucho Investments have agreed that, with the consent of Litonor Financial, an addendum to the investment contract to be entered between the Moscow Government and Stolichnoe Podvorie may be entered into.

It is intended that an amendment agreement to such management agreement be entered into pursuant to which Lafar Management would be replaced by Stolichnoe Podvorie, and Nospelt would be replaced by an entity yet to be specified (but 100 percent owned by the Group).

Pursuant to this management agreement, Litonor Financial and Toucho Investments have agreed that construction of the Khilkov Development shall be financed by third parties, however, to the extent it has not been financed by third parties, each of Litonor Financial and Toucho Investments have agreed to finance such construction up to an amount of US\$20,000,000 each (and in the case of Toucho Investments, such contribution shall be subject to Litonor Financial having previously made its contribution), and in equal amounts thereafter if third party finance remains unavailable. Any profit generated by the sale and/or leasing of the completed Khilkov Development would be apportioned 40 percent to Litonor Financial and 60 percent to Toucho Investments (which proportion accounts for the profit to be distributed to Nospelt pursuant to the agreement of ordinary partnership described above). In the event that Litonor Financial disagrees with Toucho Investments' decisions, as manager, regarding potential sale prices for parts of the completed Khilkov Complex, Litonor Financial shall be entitled to purchase such parts at the same prices as offered to third parties. Pursuant to this management agreement, Litonor Financial gives certain representations and warranties to Toucho Investments.

#### 9.21 *Lafar Management Loan Agreements*

Pursuant to the Lafar Management Partnership Agreement, each of Litonor Financial and Toucho Investments have entered into loan agreements with Lafar Management, in each case dated 20 September 2006, pursuant to which each of Litonor Financial and Toucho Investments agreed to make available to Lafar Management a loan in the amount of US\$2,446,480. The loan agreements are identical in all material respects. Each loan agreement has an annual interest rate of six percent, and the full amount under each loan agreement was advanced to Lafar Management on 28 September 2006. Each loan is required to be repaid no later than 24 September 2008. Such loans are to be used in relation to Lafar Management's payment obligations pursuant to the Stolichnoe Podvorie Share Purchase Agreement. Each loan agreement is governed by the laws of the Republic of Cyprus.

#### 9.22 *Stolichnoe Podvorie Share Purchase Agreement*

Pursuant to the Stolichnoe Podvorie Share Purchase Agreement dated 20 July 2006 (as amended on 21 July 2006), Lafar Management acquired 100 percent of the charter capital of Stolichnoe Podvorie. The total consideration payable by Lafar Management for such acquisition of US\$4,892,960 was paid on 28 September 2006. Relevant amendments to Stolichnoe Podvorie's charter reflecting the changes of holding were registered on 23 August 2006. Gromov Stanislav Konstantinovich provides certain limited representations and warranties under the agreement which entitle Lafar Management to damages in the event of breach of any of the warranties. The agreement is governed by the laws of the Russian Federation.

## *Armix*

### 9.23 *Armix Share Purchase Agreements*

Pursuant to the First Armix Share Purchase Agreement dated 30 May 2006 (as amended and restated on 15 November 2006), Teruel Investments acquired 99 percent of the charter capital of Armix from an individual connected to Boris Kuzinez. The consideration payable by Teruel Investments was 99,000 Roubles (approximately US\$3,700). Pursuant to the Second Armix Share Purchase Agreement dated 30 May 2006 (as amended and restated on 15 November 2006), Toucho Investments acquired one percent of the charter capital of Armix from such individual. The consideration payable by Toucho Investments was 1,000 Roubles (approximately US\$37). The consideration under each agreement was paid to such individual on 6 November 2006. The legal and beneficial ownership of the charter capital was transferred to Toucho Investments and Teruel Investments upon signing of the relevant agreements on 30 May 2006, subject to the provisions of the Federal Law No. 14-FZ On Limited Liability Companies dated 8 February 1998 and notification of Armix of the completed share transfer. Relevant amendments to Armix's charter reflecting the changes of holding were registered on 27 June 2006. The relevant individual provides certain warranties under each agreement which entitle Toucho Investments and Teruel Investments respectively to claim damages in the event of breach of any of the warranties, provided that such individual shall only be obliged to pay such damages to Toucho Investments or Teruel Investments, as the case may be, if the aggregate amount of the claims under the relevant agreement(s) to which they are a party exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. These agreements are governed by the laws of the Russian Federation.

## *Project Bureau*

### 9.24 *Project Bureau Share Purchase Agreements*

Pursuant to the First Project Bureau Share Purchase Agreement dated 30 June 2006 (as amended and restated on 15 November 2006), Teruel Investments acquired from Boris Kuzinez 99 percent of the charter capital of Project Bureau. The consideration payable by Teruel Investments was US\$1,782,000. Pursuant to the Second Project Bureau Share Purchase Agreement dated 30 June 2006 (as amended and restated on 15 November 2006), Toucho Investments acquired from Boris Kuzinez one percent of the charter capital of Project Bureau. The consideration payable by Toucho Investments was US\$18,000. The amounts of US\$1,482,000 and US\$18,000 pursuant to the First Project Bureau Share Purchase Agreement and the Second Project Bureau Share Purchase Agreement, respectively, were paid to Boris Kuzinez on 26 October 2006. The balance of US\$300,000 was paid to Boris Kuzinez on 12 July 2006. The legal and beneficial ownership of the charter capital was transferred to Toucho Investments and Teruel Investments upon signing of the relevant agreements on 30 June 2006, subject to the provisions of the Federal Law No. 14-FZ On Limited Liability Companies dated 8 February 1998 and notification of Project Bureau of the completed share transfer. Relevant amendments to Project Bureau's charter reflecting the changes of holding were registered on 21 August 2006. Boris Kuzinez provides certain warranties under each agreement which entitle Toucho Investments and Teruel Investments respectively to claim damages in the event of breach of any of the warranties, provided that Boris Kuzinez shall only be obliged to pay such damages to Toucho Investments or Teruel Investments, as the case may be, if the aggregate amount of the claims under the relevant agreement(s) to which they are a party exceeds US\$250,000 and only for such amount in excess of the US\$250,000 threshold. These agreements are governed by the laws of the Russian Federation.

## *Agreements relating to the Company*

### 9.25 *RGI Subscription Agreement*

Pursuant to the RGI Subscription Agreement dated 27 September 2006, SSF III Father Holdings subscribed for 9,090,909 Ordinary Shares, at the time representing 15.4 percent of the Company's issued share capital on a fully diluted basis. The subscription price paid by SSF III Father Holdings for the acquisition of such Ordinary Shares was US\$30,000,000.

Pursuant to the RGI Subscription Agreement, SSF III Father Holdings and the Company agreed that, within 14 days of completion of the RGI Subscription Agreement, it would procure that (i) US\$5,559,168, being the outstanding amount owed by the Company to D.E.S. pursuant to the D.E.S. Loan Agreement shall be converted into equity by way of a capital contribution without

the issue of shares; (ii) US\$5,831,971 transferred to Denhurst View in respect of payments required under the First Ling Investments Share Purchase Agreement and in respect of the transfer of amounts outstanding under the loan agreement dated 25 February 2005 between Denhurst View and Ling Investments; and (iii) US\$4,960,832 shall be paid by D.E.S. as a further capital contribution, of which, US\$4,255,996 shall be paid by the Company to satisfy certain obligations in respect of the acquisition by the Company of certain of its assets and subsidiaries. The aforementioned capital contribution of US\$ 4,960,832 was made by D.E.S. to the Company on 10 October 2006.

Pursuant to the RGI Subscription Agreement, each of the Company and D.E.S. agree to cause Nospelt and Inpromtex, respectively, to take certain actions to give effect to the transfer of the Butikovsky Development to Nospelt. D.E.S. provides certain warranties under the RGI Subscription Agreement to SSF III Father Holdings, which entitle SSF III Father Holdings to damages in the event of breach of any of such warranties. Such warranties are subject to limitations of liability. The RGI Subscription Agreement is governed by the laws of England and Wales.

#### 9.26 *RGI Shareholders' Agreement*

Upon Admission, the provisions of the RGI Shareholders' Agreement dated 27 September 2006 cease to be binding on the parties thereto, save as described below.

Pursuant to the RGI Shareholders' Agreement, the Company and D.E.S. agreed to use their best endeavours to procure that Boris Kuzinez shall serve as the general manager of the Company for a minimum of three years from the date of the RGI Shareholders' Agreement and D.E.S. agreed to use all reasonable endeavours to procure that Boris Kuzinez shall retain control of D.E.S. for such period.

Pursuant to the RGI Shareholders' Agreement, D.E.S. has given certain non-competition undertakings. In particular, for as long as it is a Shareholder and for a period of 24 months thereafter, D.E.S. may not, either directly or indirectly (a) compete with any Group Company in the Commonwealth of Independent States, provide services to, or have an interest in, any person engaged in competition with the Group's business (with certain exceptions), or (c) permit Boris Kuzinez to do any such matters. Further, for as long as it remains a Shareholder, D.E.S. shall notify the Company of any business opportunity reasonably related to the Company's business and use its reasonable endeavours to make such business opportunity available to the Company before pursuing any such business opportunity itself.

Pursuant to the RGI Shareholders' Agreement, in the event that Boris Kuzinez ceases to control D.E.S., SSF III Father Holdings shall have the right to require the Company to purchase any Ordinary Shares acquired by SSF III Father Holdings pursuant to the RGI Subscription Agreement, together with any other Ordinary Shares held by Morgan Stanley or any of its affiliates. In such event, the purchase price is to be the greater of the price per Ordinary Share paid by SSF III Father Holdings pursuant to the RGI Subscription Agreement, and the equity value of the Group, adjusted pro-rata to the shareholding of SSF III Father Holdings in the Company. There is no specified time period within which SSF III Father Holdings must exercise such put option.

The rights and obligations described in the three preceding paragraphs cease to remain in force upon the expiry of the lock-up period agreed to by D.E.S. as described in paragraph 9.30 of this Part VII.

Pursuant to the RGI Shareholders' Agreement, for so long as SSF III Father Holdings holds Ordinary Shares representing at least five percent and not more than 25 percent of the Ordinary Shares in issue, it has the right to appoint one Director to the Board. For so long as SSF III Father Holdings holds Ordinary Shares representing more than 25 percent of the Ordinary Shares in issue, it has the right to appoint two Directors to the Board. SSF III Father Holdings' representative on the Board is Glenn Aaronson.

Pursuant to the RGI Shareholders' Agreement, in the event that, following an initial public offering or a listing of the Company's Ordinary Shares on a major international stock exchange (including AIM), D.E.S. proposes to sell Ordinary Shares constituting 30 percent or more of the Company's issued share capital to any one person, SSF III Father Holdings has a tag-along right in respect of all Ordinary Shares held by SSF III Father Holdings.



SSF III Father Holdings' right to appoint a Director and tag-along right, as described above, do not have any fixed expiry and continue in force and effect while the RGI Shareholders' Agreement remains in force and effect. The RGI Shareholders' Agreement is governed by the laws of England and Wales.

*Agreements relating to Admission*

9.27 *Underwriting Agreement*

On 6 December 2006, the Company entered into the Underwriting Agreement, pursuant to which Morgan Stanley has agreed, subject to certain conditions, to procure subscribers for the Ordinary Shares to be issued by the Company under the Offer, or, failing which, to subscribe for such Ordinary Shares itself, at the Offer Price.

The Underwriting Agreement is conditional upon, among other things, Admission becoming effective not later than 20 December 2006. In consideration of their services in connection with the Offer, the Underwriting Agreement provides for Morgan Stanley to be paid commissions of (i) six percent of an amount equal to the Offer Price multiplied by the number of Offer Shares issued pursuant to the Offer; and (ii) six percent of the amount equal to the Offer Price multiplied by the number of Over-allotment Shares (if any) subscribed for pursuant to the Over-allotment Option.

The Underwriting Agreement contains warranties given by the Company in favour of Morgan Stanley, Shore Capital and KPMG Corporate Finance as to the accuracy of the information contained in this document and other matters relating to the Group and its businesses. In addition, the Company has given an indemnity to Morgan Stanley, Shore Capital and KPMG Corporate Finance in respect of certain matters. The Directors have also given certain warranties to Morgan Stanley, Shore Capital and KPMG Corporate Finance. The Underwriting Agreement contains provisions entitling Morgan Stanley to terminate the Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances, including, among others, where there is an event of force majeure or a material adverse change in the Group's business or where the Company is in material breach of its obligations under the Underwriting Agreement or there is a material breach of the warranties. If this right is exercised, the Offer and these arrangements will lapse and any monies received in respect of the Offer will be returned to applicants without interest.

Pursuant to the Underwriting Agreement, the Directors have undertaken to Morgan Stanley and KPMG Corporate Finance that, during a period of 365 days from the date of Admission they will not, without the prior written consent of Morgan Stanley and KPMG Corporate Finance, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities that are convertible into or exchangeable for, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, subject to certain limited exceptions, which include (i) to any connected persons; (ii) the acceptance of a general offer made to all the holders of issued Ordinary Shares; (iii) the transfer or disposal of Ordinary Shares pursuant to an intervening court order; (iv) the transfer or disposal of Ordinary Shares to any personal representatives following the death of such Director; (v) the transfer or disposal of Ordinary Shares pursuant to a compromise or arrangement between the Company and its creditors or members; or (vi) the pledge of any Ordinary Shares in connection with any bona fide loan agreement between such Director and a financial institution or other lender.

9.28 *Nominated Adviser Agreement and Nominated Adviser Engagement Letter*

On 6 December 2006, KPMG Corporate Finance entered into a nominated adviser agreement and a nominated adviser engagement letter with the Company, pursuant to which the Company has appointed KPMG Corporate Finance to act as nominated adviser to the Company in relation to Admission and thereafter. The nominated adviser agreement is terminable by either party on three months' notice. The nominated adviser's engagement letter is terminable by either party on 30 days' notice. KPMG Corporate Finance is entitled to receive a fee of £350,000 (excluding VAT) upon Admission and £75,000 per annum for its services. The nominated adviser agreement contains an indemnity given by the Company to KPMG Corporate Finance and provides, among other things, that the Company undertakes to comply with the AIM Rules. KPMG Corporate



Finance has the right to resign as nominated adviser in the event that the Company fails to appoint the additional independent non-executive director referred to under the heading “Directors—Independent non-executive director” in Part III of this document.

9.29 *Broker Agreement*

On 6 December 2006, Morgan Stanley entered into a broker agreement with the Company, pursuant to which the Company has appointed Morgan Stanley as broker to the Company in relation to the issue of this document and Admission and thereafter. The broker agreement is terminable at will by either party. Morgan Stanley is entitled to receive a fee of £40,000 per annum for its services. The broker agreement contains an indemnity given by the Company to Morgan Stanley and provides, among other things, that the Company undertakes to comply with the AIM Rules.

9.30 *Lock-up Deeds*

Pursuant to separate lock-up deeds, in each case dated 6 December 2006, each of D.E.S., SSF III Father Holdings and Kensington Gore has undertaken to Morgan Stanley, as broker, and KPMG Corporate Finance, as nominated adviser, that they will not, subject to certain limited exceptions (which include (i) the acceptance of a general offer made to all the holders of issued Ordinary Shares; (ii) the transfer or disposal of Ordinary Shares pursuant to an intervening court order; or (iii) the transfer or disposal of Ordinary Shares pursuant to a compromise or arrangement between the Company and its creditors or members), without the prior written consent of Morgan Stanley and KPMG Corporate Finance, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities that are substantially similar to, convertible into, or exchangeable for, the Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, for a period of 365 days from the date of Admission (the “Lock-up Period”).

The lock-up deed entered into by SSF III Father Holdings prevents SSF III Father Holdings from, for a period of 365 days from Admission: (i) exercising its put option under the RGI Shareholders’ Agreement; and (ii) exercising its tag-along right under the RGI Shareholders’ Agreement.

9.31 *Relationship Agreement*

The Company entered into a relationship agreement with D.E.S. and Boris Kuzinez on 6 December 2006. This agreement provides that D.E.S. will, for as long as it continues to hold at least 30 percent of the shares carrying voting rights in the Company (while they continue to be admitted to AIM or the Official List, as the case may be), at all times:

- (a) exercise its voting rights (and procure that its connected persons will exercise their voting rights) to ensure that the Board comprises at least two independent non-executive directors;
- (b) keep confidential and not use for its own benefit any confidential information relating to the Company or the Group to which it has been given access by reason of its interest in the share capital of the Company; and
- (c) exercise its voting rights (and procure that its connected persons exercise their voting rights) so as to procure, insofar as it or they are able to do so by the exercise of those rights, that:
  - (i) the Company and its subsidiaries are capable at all times of carrying on its business independently of D.E.S.;
  - (ii) all transactions, agreements or arrangements entered into between D.E.S. or any connected person and the Company (or any of its subsidiaries) are, and will be made, on an arm’s length basis and on normal commercial terms;
  - (iii) no variations are made to the Articles that would be contrary to the Company’s independence from D.E.S.; and
  - (iv) the independence of the Board is maintained.

## 10. Licences

- 10.1 The licences held by Project Bureau are material to the activities of the Group. Such licences authorise the Group to conduct its key operational activities. These licences are detailed as follows:

<u>Licence Description</u>	<u>Issuing Authority</u>	<u>Date of Grant</u>	<u>Expiry</u>
Customer/Developer activities: No. GS-1-99-02-27 -0-7704564609-032403-1 (Performance of functions of customer for carrying out construction of buildings and facilities at responsibility levels I and II.)	Federal Agency on Construction and Housing Affairs	14 November 2005	14 November 2010
Design works activities: No. GS-1-99-02-26 -0-7704564609-032402-1 (Designing of buildings at responsibility levels I and II.)	Federal Agency on Construction and Housing Affairs	14 November 2005	14 November 2010

- 10.2 Other than as set out in paragraphs 8, 9 or 10.1, the Group is not dependent upon any patents or licences, industrial, commercial or financial contracts or new manufacturing processes.

## 11. Employees

- 11.1 The Group's number of employees at the end of the period covered by the historical financial information contained in this document was approximately 27. The Group's number of employees as at 20 November 2006 was approximately 39, with approximately 28 being involved in property development operations and approximately 11 being involved in property management operations.
- 11.2 Substantially all of the Group's employees are based in Moscow.

## 12. Taxation

### 12.1 *General*

The following statements are of a general and non-exhaustive nature based on the Directors' understanding of the current tax legislation and practice of the tax authorities in Guernsey and the United Kingdom (which are subject to change, possibly with retrospective effect) and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate to persons who are resident and ordinarily resident in the United Kingdom for United Kingdom tax purposes, who are beneficial owners of Ordinary Shares and who hold their Ordinary Shares as an investment.

An investment in the Company involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which the Company will have investments or in Guernsey or the United Kingdom (or in any other country in which a subsidiary of the Company through which investments are made, is located), or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors.

**Prospective investors should consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding, converting or selling shares under the laws of their country and/or state of citizenship, domicile or residence.**

### 12.2 *Guernsey Taxation*

#### 12.2.1 *The Company*

Confirmation has been sought and obtained from the Administrator of Income Tax that, under current law and practice in Guernsey, the Company will qualify for exempt status and only be liable to tax in Guernsey in respect of income arising in Guernsey, other than bank deposit interest. A fee, currently £600 per annum, is payable to the States of

Guernsey Income Tax Office in respect of the Company's exempt status. It is not anticipated that any income other than bank interest will arise in Guernsey and therefore the Company is not expected to incur any additional liability to Guernsey tax.

On 25 November 2002, the Advisory and Finance Committee of the States of Guernsey (now replaced by the States of Guernsey Policy Council) announced a proposed framework for a structure of corporate tax reform within an indicative timescale. At the end of September 2005, the Fiscal and Economic Policy Steering Group published a second consultation document on Guernsey's future economic and taxation strategy. That document confirmed the earlier recommendation that the general rate of income tax paid by Guernsey companies, including the Company, would be reduced to zero percent in respect of the tax year 2008 and subsequent years. The changes, if implemented, will mean that the Company will become a Guernsey resident company subject to a zero rate of Guernsey tax. No further changes are proposed that would impact upon the position of non-Guernsey resident holders of Ordinary Shares. Such holders will not be subject to Guernsey tax on the redemption or disposal of their holding of Ordinary Shares.

#### 12.2.2 *The Shareholders*

Shareholders who are tax resident in Guernsey (subject to their individual circumstances) will be subject to Guernsey income tax on dividends received. The Company is required to make a return to the Administrator of Income Tax, on an annual basis, when renewing the Company's exempt tax status, as described above, of the names, addresses and gross amounts of income distributions paid to Guernsey resident shareholders during the previous year.

Shareholders resident outside Guernsey will not be subject to any tax in Guernsey in respect of any Ordinary Shares owned by them.

#### 12.2.3 *Withholding Tax*

Guernsey does not levy a withholding tax on dividends paid to any shareholders, whether resident in Guernsey or not.

#### 12.2.4 *EU Savings Tax Directive*

Although not a Member State of the European Union, Guernsey, in common with certain other jurisdictions has agreed to apply equivalent measures to those contained in the EU Savings Tax Directive (2003/48/EC), with the exception that the EU resident individual to whom interest is paid will suffer a retention tax on such payment (currently set at a rate of 15 percent,) where they have not agreed to exchange certain information about their identity, residence and savings income with the tax authorities in their Member State of Residence.

As the Company will not be regarded as an undertaking that is equivalent to a UCITS authorised in accordance with EC Directive 85/611/EEC, no retentions or exchanges of information under the EU Savings Tax Directive as implemented in Guernsey are expected to apply to holdings of Ordinary Shares where payments in respect of such holdings are made by a Guernsey paying agent.

#### 12.2.5 *Document duty*

Document duty in Guernsey is calculated at the rate of 0.5 percent and is payable on incorporation on the nominal value of the authorised share capital of the Company up to a maximum amount of duty of £5,000 for each company.

### 12.3 *UK Taxation*

#### 12.3.1 *General*

The comments below are based on the current UK tax law and current published practice of H.M Revenue and Customs ("HMRC") at the date of this document, all of which are subject to change, possibly with retrospective effect.

**The following paragraphs are intended as a general guide to the UK taxation of shareholders who are resident and ordinarily resident in the UK for tax purposes, who are the beneficial owners of Ordinary Shares and who hold Ordinary Shares as investments and not as securities to be realised in the course of a trade. The paragraphs below do not constitute advice to any prospective investor on their personal tax position.**

**Any prospective purchaser of Ordinary Shares who is in any doubt about their tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his/her own professional adviser immediately.**

#### 12.3.2 *The Company*

It is the intention of the Directors to conduct the affairs of the Group so that (i) the management and control of the Company and each member of the Group is not exercised in the UK and neither the Company nor any other member of the Group is resident in the UK for taxation purposes; and (ii) so that neither the Company nor any other member of the Group carries on any trade in the UK (whether or not through a permanent establishment situated there). Provided that the affairs of the Group are so conducted, the Company will not be liable for UK taxation on its income or gains unless those income or gains are derived from a UK source.

#### 12.3.3 *The Shareholders*

##### (a) Dividend distributions

UK resident and domiciled Shareholders will be liable to income tax on dividends distributed by the Company. UK resident non domiciled Shareholders will only be taxed on Guernsey dividends to the extent that they remit them to the UK.

No UK tax credit will be attached to dividends received by Shareholders.

The income tax charge in respect of dividends received by UK resident and domiciled Shareholders, other than higher rate taxpayers, will be at the rate of 10 percent. A higher rate taxpayer will be liable to income tax on dividends received from the Company at the rate of 32.5 percent (to the extent that, taking the dividend as the top slice of income, it falls above the threshold for the higher rate of income tax). UK resident Shareholders who are not liable to income tax on their income will not be subject to a tax on dividends.

Non domiciled Shareholders will, subject to their individual circumstances, pay tax on dividend income remitted to the UK at the rate of 32.5 percent (to the extent that, taking the dividend as the top slice of income, it falls above the threshold for the higher rate of income tax).

Persons who are not tax resident in the UK should consult their own tax advisers on the possible application of relevant overseas taxation provisions and whether relief or credit may be claimed in the jurisdiction in which they are tax resident.

UK resident corporate holders of Ordinary Shares will be liable to corporation tax on dividends received from the Company.

##### (b) Capital Gains

The Company, as a closed ended company, should not as at the date of this document be treated as an “offshore fund” for the purposes of UK taxation. Accordingly, the provisions of Chapter V of Part XVII of the Taxes Act should not apply. Any gains on disposals by UK resident or ordinarily resident holders of Ordinary Shares may, depending on their individual circumstances, give rise to a liability to UK taxation on capital gains. Likewise, the provisions of Section 98 and paragraph 7 of Schedule 10 of the Finance Act 1996, and paragraphs 36 and 37 of Schedule 26 of the Finance Act 2002 should not apply to corporate holders.

A capital gain realised on the disposal of Ordinary Shares should be eligible for taper relief in the case of individuals at a rate determined by the number of complete years for which the Ordinary Shares have been held and depending on whether they qualify as business or non-business assets. Special rules apply to establish whether the shares in

the Company will be considered business or non-business assets for taper relief purposes and an individual should consult his or her professional adviser if in doubt as to his/her tax position. Special rules apply to disposals by individuals at a time they are temporarily not resident and not ordinarily resident in the UK.

Companies realising gains on disposals of shares in the Company will be eligible for indexation allowance. For trading companies or a member of a trading group disposing of shares, the substantial shareholding rules may apply. These may allow companies that own not less than 10 percent of a company's share capital to make exempt gains on the disposal of shares subject to detailed conditions regarding, among other things, the status of the Company and the length of time for which the shares have been held being met. Capital losses realised on such shareholdings will not be allowable.

(c) Anti-avoidance provisions

The attention of individuals ordinarily resident in the UK is drawn to the revised provisions of sections 739-745 of the Taxes Act, which are designed to prevent the avoidance by such individuals of liability to income tax by means of transfers of assets by virtue or in consequence of which income becomes payable to persons resident or domiciled outside the UK. Under these provisions, income accruing to the Company may be attributed to Shareholders ordinarily resident in the UK, and may (in certain circumstances) be subject to UK income tax in the hands of the Shareholder. However, the provisions will not apply if the Shareholder satisfies the Board of HM Revenue & Customs that:

- it would not be reasonable to draw the conclusion, from all the circumstances of the case, that the purpose of avoiding liability to taxation was the purpose, or one of the purposes, for which the relevant transactions or any one of them was effected, or
- all the relevant transactions were genuine commercial transactions and it would not be reasonable to draw the conclusion, from all the circumstances of the case, that any one or more of those transactions was more than incidentally designed for the purpose of avoiding liability to taxation.

In the event that the Company would be treated as "close" if it were resident in the UK, then part of any chargeable gain accruing to the Company may be attributed to a Shareholder and may (in certain circumstances) be liable to UK tax on capital gains in the hands of the Shareholder (section 13 of the UK Taxation of Chargeable Gains Act 1992). The part attributed to the Shareholder could correspond to the Shareholder's proportionate interest in the Company. This will only apply to holders of Ordinary Shares who are domiciled (if an individual) and either resident or ordinarily resident in the UK and whose interest (when aggregated with persons connected with them) in the chargeable gains of the Company exceeds one-tenth.

If the Company becomes owned by a majority of persons resident in the UK, the legislation applying to controlled foreign companies may apply to any corporate holders of Ordinary Shares who are resident in the UK. Under these rules, part of any undistributed income accruing to the Company may be apportioned to such a Shareholder, and may in certain circumstances be chargeable to UK corporation tax in the hands of the Shareholder. However, this will only apply if the amount apportioned to that Shareholder (when aggregated with persons connected or associated with them) is at least 25 percent of the Company's relevant profits.

(d) Inheritance tax

The Ordinary Shares will not be treated as UK situs assets for the purposes of UK inheritance tax. A gift of shares by, or the death of, an individual Shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax.

A liability to UK inheritance tax is unlikely to arise if the transferor is neither domiciled, nor deemed to be domiciled in the UK.



(e) UK Stamp Duty and UK Stamp Duty Reserve Tax (“SDRT”)

The following comments are intended as a guide to the general stamp duty and SDRT legislation and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depositary arrangements or clearance services, to whom special rules apply. No UK stamp duty, or UK SDRT, will be payable on the issue of Ordinary Shares. UK stamp duty (at a rate of 0.5 percent of the amount of the value of the consideration for the transfer, rounded up where necessary to the nearest £5) may be payable on any transfer or sale of Ordinary Shares executed in the UK or which relates to something done or to be done in the UK. Provided that the Ordinary Shares are not registered in any register kept in the UK by or on behalf of the Company, and this is intended, any agreement to transfer the Ordinary Shares will not be subject to UK SDRT.

12.4 *Taxation of Income in Russia*

The Group’s Russian companies and non-Russian companies which have created a permanent establishment in the Russian Federation (“Russian Taxpayers”) will be subject to the general Russian corporate tax regime (profit tax). Non-Russian Group companies receiving income from sources in the Russian Federation otherwise than through a permanent establishment may also be subject to Russian tax in the form of withholding income tax, subject to applicable double tax treaty relief.

Corporate income tax (profit tax) is levied at a rate of 24 percent on total taxable income (generally income less deductible expenses including depreciation, interest expenses within the limits) of the Russian companies of the Group and on taxable income attributable to any Russian permanent establishment of non-Russian companies in the Group.

Withholding income tax on Russian source income is levied on some types of passive income (generally income with no cost deductions) at a rate of 15 percent (dividends), 20 percent (interest, royalties, income from the lease of immovable property, other types of income) and 20 or 24 percent (sale proceeds or capital gains, respectively, from sale of immovable property located in Russia or shares in Russian companies more than 50 percent of whose assets consist of immovable property located in Russia), subject to available double tax treaty relief. For interest and dividends received by companies of the Group resident in Cyprus, the withholding tax rates may be reduced or eliminated (and if they fulfil the conditions set out in the Cyprus–Russia double-taxation treaty) under the Cyprus–Russia double taxation treaty provided that the recipient entity is eligible for treaty relief with respect to the payment and the amount is not attributable to a Russian permanent establishment of the recipient. For example, under the Russia–Cyprus double taxation treaty, dividend withholding income tax may be reduced to five percent (if conditions set forth in the Cyprus—Russia double-taxation treaty are met) and interest and capital gains on the sale of shares in Russian companies of the Group could be exempt from Russian withholding income tax (if conditions set forth in the Cyprus—Russia double-taxation treaty are met).

No double taxation treaty relief is available for income from lease and sale of immovable property located in Russia. No consolidation for tax purposes is possible under Russian tax law. As a result, each entity in the Group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Group, which may result in higher taxes for the Group than if taxes were assessed on a consolidated basis. Payments between related parties (including between members of the Group) should be on arm’s length market terms, or else these payments may be challenged by the Russian tax authorities and additional taxes (and penalties) assessed.

Russian and non-Russian companies of the Group are generally subject to other applicable Russian taxes (including, but not limited to, VAT, property tax and land tax).

12.5 *Taxation of the Company*

It is the intention of the Directors to conduct the affairs of the Company so that it does not become resident for taxation purposes in the UK or any other jurisdiction outside

the Island of Guernsey and so that it does not carry out any trade in the UK or any other jurisdiction outside the Island of Guernsey (whether or not through a permanent establishment situated therein).

The Group's underlying business is conducted through subsidiary or associated companies in the Republic of Cyprus and the Russian Federation. The Directors intend to organise the Group's affairs so as to minimise, through appropriate planning, the incidence of taxation arising.

**If you are in any doubt as to your tax position you should consult your professional adviser.**

**13. Working Capital**

The Directors, having made due and careful enquiry, are of the opinion that following Admission and after taking into account the net proceeds of the Offer receivable by the Company, the working capital available to the Group will, from the date of Admission, be sufficient for its present requirements, that is, at least for the period of 12 months from Admission.

**14. Significant Changes**

Save as disclosed in paragraphs 8 and 9 of this Part VII, Part III of this document under the heading "The Group's Current Property Developments" and the notes referring to post-balance sheet events as set out in the financial information contained in Part VI of this document, there has been no significant change in the financial or trading position of the Group from 30 June 2006, the date to which the financial information in Part VI of this document has been made up, to 6 December 2006, the last practical date prior to publication of this document.

**15. Litigation**

There are no governmental, legal or arbitration proceedings, whether active, or so far as the Group is aware, pending or threatened, against, or being brought by, the Company or any member of the Group during the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

**16. Mandatory Offers and Compulsory Acquisition of Shares**

- 16.1 The Takeover Code will not apply to the Company. As a result, a takeover offer for the Company will not be regulated by the UK takeover authorities. The Articles contained certain takeover protections, although these will not provide the full protections afforded by the Takeover Code. The relevant provisions of the Articles are summarised in paragraph 4.18 and 4.19 of Part VII of this document.
- 16.2 There have been no public takeover bids by third parties in respect of the Company's issued share capital which have occurred since the Company's incorporation.

**17. General**

- 17.1 Save as disclosed in Part III of this document in relation to its current portfolio of developments and pipeline developments, the Group has no significant investments in progress.
- 17.2 The total costs, charges and expenses payable by the Company in connection with or incidental to the Offer (assuming no exercise of the Over-allotment Option) and Admission (including registration and stock exchange fees, fees for printing, advertising and distribution costs, legal and accounting fees, and those fees and commissions payable pursuant to the agreements described in paragraph 9.27 (Underwriting Agreement) above) are estimated to amount to approximately US\$12 million. The net proceeds of the Offer (assuming no exercise of the Over-allotment Option) receivable by the Company are estimated to be approximately US\$162.6 million.
- 17.3 Save as set out in paragraphs 3 and 6 in this Part VII or as set out below and except for fees payable to (i) the professional advisers whose names are set out on page 3 of this document; or (ii) trade suppliers, no person has:
  - 17.3.1 received, directly or indirectly, from the Company within the 12 months preceding the application for Admission; or

17.3.2 entered into any contractual arrangement (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company, on or after Admission, any of the following:

- (a) fees totalling £10,000 or more; or
- (b) securities in the Company with a value of £10,000 or more calculated by reference to the expected opening price on Admission; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

The Company has entered into the following contracts which require payment by the Company of over £10,000:

- (i) Agreement with Bachmann Fund Administration Limited for the provision of company secretarial services.
- (ii) Agreement with Citigate Dewe Rogerson for the provision of public relations services.
- (iii) Agreement with AIG Europe (UK) Limited for the provision of directors' and officers' insurance and prospectus liability insurance.

- 17.4 PricewaterhouseCoopers CI LLP, of National Westminster House, Le Truchot, St Peter Port, Guernsey GY1 4ND, who are members of the Institute of Chartered Accountants of England and Wales, were appointed as auditors of the Company on 24 November 2006. Prior to such appointment, as the Company was formed on 14 March 2006, no auditors had been appointed.
- 17.5 PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this document of its Accountants' Report, as set out in Part VI of this Document, in the form and context in which it appears, and has authorised the contents of its Accountants' Report for the purposes of item 23.1 of Annex I of the AIM Rules.
- 17.6 DTZ has given and not withdrawn its written consent to the issue of this document with the inclusion of its Industry Consultant's Report set out in Part V of this document and the references thereto and to its name in the form and context in which it appears and has authorised the contents of its report for the purposes of item 23.1 of Annex I of the AIM Rules. DTZ has no material interest in any member of the Group.
- 17.7 Morgan Stanley has given and not withdrawn its written consent to the issue of this document with the references to it in the form and context in which such references appear.
- 17.8 Shore Capital has given and not withdrawn its written consent to the issue of this document with the references to it in the form and context in which such references appear.
- 17.9 The arrangements for paying for the Offer Shares are summarised in Part III of this document and in the Underwriting Agreement.
- 17.10 Copies of this document will be available for collection only, free of charge, from the offices of Morgan Stanley, at 25 Cabot Square, Canary Wharf, London E14 4QA during normal business hours on any weekday (excluding public holidays) for a period of not less than one month from the date of Admission.

7 December 2006

## DEFINITIONS

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

<b>“2001 Ostozhenka Land Lease”</b>	a long term lease agreement No. M-01-019577 dated 11 October 2001 between Inpromtex and the Moscow Government relating to the land plot with a total area of 0.022 hectares located at building 3, 37/7 Ostozhenka Street, Moscow;
<b>“2006 Ostozhenka Land Lease”</b>	a long term lease agreement No. M-01-513204 dated 31 March 2006 between Inpromtex and the Department of Land Resources relating to (i) the land plot with a total area of 0.0576 hectares located at building 1, 37/7 Ostozhenka Street, Moscow and (ii) the land plot with a total area of 0.0066 hectares located at building 1, 37/7 Ostozhenka Street, Moscow;
<b>“Accountants’ Report”</b>	the report prepared by PricewaterhouseCoopers LLP which is reproduced in Part VI of this document regarding the historical financial information set out in Part VI of this document;
<b>“Act”</b>	the Companies Act 1985 (as amended);
<b>“Admission”</b>	the effective admission of the entire ordinary share capital of the Company, issued and to be issued, to trading on AIM becoming effective as provided in the AIM Rules;
<b>“AIM”</b>	AIM, a market operated by the London Stock Exchange;
<b>“AIM Rules”</b>	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange governing admission to and the operation of AIM;
<b>“Articles”</b>	the articles of association of the Company, of which a summary of certain provisions is set out in paragraph 4 of Part VII of this document;
<b>“Audit Committee”</b>	the audit committee of the Board from time to time;
<b>“Board”</b>	the board of Directors for the time being, including any duly constituted committee of the Directors;
<b>“Butikovsky Act of Permitted Use”</b>	the Act of Permitted Use of the Land Plot No. A-0864/02 dated 20 September 2005;
<b>“Butikovsky Agreement on Sale of Real Estate”</b>	an agreement to be entered into between Inpromtex and Nospelt pursuant to the Butikovsky Preliminary Agreement;
<b>“Butikovsky Agreement on Share Participation”</b>	an agreement dated 23 October 2006 and amended and restated on 15 November 2006 between Inpromtex and Nospelt;
<b>“Butikovsky Development”</b>	the office building to be constructed at 15 Butikovsky Lane, Moscow;
<b>“Butikovsky Interdepartmental Conclusion”</b>	the Conclusion of the State Interdepartmental Inspection issued in respect of the design documentation for construction of the Butikovsky Development No. 202-P4/05 MGE dated 26 February 2006;
<b>“Butikovsky Investment Contract”</b>	an investment contract dated 25 October 2005 between Efir, the Moscow Government and Inpromtex;

<b>“Butikovsky Land Lease”</b>	a short term lease agreement No. M-01-512784 dated 16 November 2005 between Inpromtex (as tenant) and the Moscow Department of Land Resources (as landlord);
<b>“Butikovsky Preliminary Agreement”</b>	an agreement dated 23 October 2006 between Inpromtex and Nospelt;
<b>“c£”</b>	Cypriot pounds, the lawful currency for the time being of the Republic of Cyprus;
<b>“Canalet Holding Share Purchase Agreement”</b>	a share purchase agreement dated 6 June 2006 between Whyre Holdings, Toucho Investments and Teruel Investments;
<b>“Central Market Share Purchase Agreement”</b>	a participatory share purchase agreement dated 29 December 2004 between Ling Investments and Stolichnye Gastronomy;
<b>“City of Moscow”</b>	a non-legal term broadly used in the Russian Federation which means Moscow state authorities, including, in particular, the Moscow Government;
<b>“Civil Code”</b>	the Civil Code of the Russian Federation;
<b>“Combined Code”</b>	the code of best practice, including the principles of good governance, set out in the Combined Code on Corporate Governance published in June 2006 by the Financial Reporting Council;
<b>“Company” or “RGI”</b>	R.G.I. International Limited;
<b>“Construction Licensing Regulation”</b>	the Regulation on the Licensing of Construction of Buildings of I and II Levels of Responsibility in Accordance with State Standards, approved by Government Resolution No. 174, dated 21 March 2002;
<b>“CREST”</b>	the computerised settlement system, facilitating the paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo Limited;
<b>“Cypriot Holding Companies”</b>	Toucho Investments and Teruel Investments;
<b>“D.E.S. Loan Agreement”</b>	a loan agreement dated 21 September 2006 between the Company (as borrower) and D.E.S. (as lender);
<b>“Directors”</b>	the directors of the Company, whose full names appear on page 3 of this document;
<b>“DIPS”</b>	the Department of Investment Construction Programs of the City of Moscow;
<b>“DTZ”</b>	OOO Debenham Zadelhoff Limited, an independent real estate appraiser which has prepared the Industry Consultant’s Report;
<b>“Efir”</b>	the Federal State Unitary Enterprise “Efir”;
<b>“Extract from Resolution No. 6”</b>	the Extract from the Resolution of the Circuit Tender Commission of Property and Land Complex of the Central Administrative Circuit No. 6 dated 2 March 2006;
<b>“EU”</b>	the European Union;
<b>“FAS”</b>	the Department of Federal Anti-monopoly Service for Moscow and the Moscow Region;



<b>“First Armix Share Purchase Agreement”</b>	a share purchase agreement dated 30 May 2006 and amended and re-stated on 15 November 2006 between Ms Martynenko Natalia Borisovna and Teruel Investments;
<b>“First Dinas Share Purchase Agreement”</b>	a share purchase agreement dated 10 March 2006 and amended and re-stated on 8 May 2006 between Canalet Holding and Ms. Korobov Natalia Nikolaevna;
<b>“First Ling Investments Share Purchase Agreement”</b>	a share purchase agreement dated 26 June 2006 and amended and re-stated on 15 November 2006 between Denhurst View and Toucho Investments;
<b>“First Ostozhie Share Purchase Agreement”</b>	a share purchase agreement dated 15 June 2006 and amended and re-stated on 10 August 2006 between Inpromtex and Lemoriano Holdings;
<b>“First Project Bureau Share Purchase Agreement”</b>	a share purchase agreement dated 30 June 2006 and amended and re-stated on 15 November 2006 between Teruel Investments and Boris Kuzinez;
<b>“FSA”</b>	Financial Services Authority of the United Kingdom;
<b>“FSMA”</b>	(English) Financial Services and Markets Act 2000 (as amended);
<b>“Group”</b>	the Company and its subsidiaries, together with Lafar Management and Stolichnoe Podvorie, and <b>“Group Company”</b> shall mean any such member of the Group;
<b>“Industry Consultant’s Report”</b>	the report on the real estate market in Moscow prepared by DTZ, which is reproduced in Part V of this document;
<b>“Khilkov Building”</b>	the existing building located at 3/1 Khilkov Lane, Moscow;
<b>“Khilkov Development”</b>	the primarily residential building to be constructed at the Khilkov Land Plot;
<b>“Khilkov Land Plot”</b>	a land plot located at the address bldg. 1, 3 Khilkov Lane, property 8 Turchaninov Lane, 43 Ostozhenka Street, Moscow;
<b>“KPMG Corporate Finance”</b>	KPMG Corporate Finance, a division of KPMG LLP, of 8 Salisbury Square, London EC4Y 8BB;
<b>“Lafar Management Partnership Agreement”</b>	a partnership agreement dated 19 September 2006 between Litonor Financial and Toucho Investments in relation to Lafar Management;
<b>“Lafar Management Share Purchase Agreement”</b>	a share purchase agreement dated 19 September 2006 between Litonor Financial and Toucho Investments in relation to Lafar Management;
<b>“Land Code”</b>	the Land Code of the Russian Federation;
<b>“Lemoriano Holdings Share Purchase Agreement”</b>	a share purchase agreement dated 10 May 2006 between Teruel Investments and Toucho Investments;
<b>“LLC Directway Investments Share Purchase Agreement”</b>	a participatory share purchase agreement dated 15 November 2006 between Yialoka Holdings and Directway Investments;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Minimum Subscription”</b>	that number of Offer Shares which represents the minimum subscription of such Offer Shares upon which the Directors will proceed to allotment of the Offer Shares;

<b>“Model Code”</b>	the model code on dealing in AIM securities as defined in the AIM Rules;
<b>“Morgan Stanley”</b>	Morgan Stanley Securities Limited;
<b>“Moscow Government”</b>	the superior collegial executive state body headed by the Mayor of Moscow, which is entitled, in particular, to allocate land for construction on the basis of investment contracts entered into between the Moscow Government and the relevant developer;
<b>“Nominated Adviser Agreement”</b>	the agreement dated 6 December 2006 between the Company, the Directors and KPMG Corporate Finance relating to KPMG Corporate Finance acting as nominated adviser to the Company, further details of which are set out in paragraph 9 of Part VII of this document;
<b>“Nomination Committee”</b>	the nomination committee of the Board from time to time;
<b>“Offer”</b>	the offer of the Offer Shares at the Offer Price pursuant to the Underwriting Agreement;
<b>“Offer Price”</b>	the price at which each Ordinary Share is to be issued or sold under the Offer as specified in “Offer Statistics” on page 1 of this document;
<b>“Offer Shares”</b>	29,099,250 Ordinary Shares to be allotted and issued pursuant to the Offer, such allotment being conditional on Admission;
<b>“Official List”</b>	the official list of the United Kingdom Listing Authority;
<b>“Old Butikovsky Building”</b>	a dilapidated building previously located at 15 Butikovsky Lane, Moscow;
<b>“Ordinary Shares”</b>	ordinary shares in the share capital of the Company each with a par value of £0.000000004;
<b>“Ostozhenka Building”</b>	the existing non-residential building with a total area of 465.4 square metres located at 37/7 Ostozhenka Street, Moscow;
<b>“Ostozhenka Cadastre Certificate”</b>	Cadastre Certificate No. 77-GK/100-007/06-1551 dated 17 July 2006;
<b>“Ostozhenka Development”</b>	the residential building to be constructed at 37/7 Ostozhenka Street, Moscow;
<b>“Over-allotment Option”</b>	the option granted to Morgan Stanley to require the Company to issue the Over-allotment Shares at the Offer Price, among other things, to cover over-allotments or further allotments, if any, in connection with the Offer and to cover short positions resulting from stabilisation transactions, as contained in the Underwriting Agreement;
<b>“Over-allotment Shares”</b>	up to 2,909,925 additional Ordinary Shares to be made available under the Over-allotment Option;
<b>“Pounds Sterling” or “£”</b>	pounds sterling, the lawful currency for the time being of the United Kingdom;
<b>“Pre-Construction Phase Documentation”</b>	has the meaning set out in Part III of this document under the heading “Pre-Construction Phase”;

<b>“Prospectus Directive”</b>	Directive 2003/71/EC of the European Parliament on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC;
<b>“Register of Immovables”</b>	the Unified State Register of Rights to and Transactions with Immovable Property;
<b>“Register of Members”</b>	the register of members of the Company from time to time;
<b>“Relationship Agreement”</b>	the agreement dated 6 December 2006 between the Company, D.E.S. and Boris Kuzinez, further details of which are set out in paragraph 9 of Part VII of this document;
<b>“Remuneration Committee”</b>	the remuneration committee of the Board from time to time;
<b>“Resolution No. 3-RP”</b>	Resolution of Moscow Government “On Financing of Realisation of Investment Projects in the City of Moscow” No. 3-RP dated 12 January 2006;
<b>“Resolution No. 297-RP”</b>	Resolution of the Moscow Government “On Construction of the Butikovsky Development” No. 297-RP dated 27 February 2004;
<b>“Resolution No. 392-R”</b>	Resolution of the Rosimuschestvo “On Approval of Participation of Efir in the Investment Agreement” No. 392-R dated 15 April 2005;
<b>“Resolution No. 837-RP”</b>	Resolution of the Moscow Government “On planning and performance of construction of the residential house with built-in non-residential premises and parking at the address: bldg. 1, 3 Khilkov lane, property 8 Turchaninov lane, 43 Ostozhenka Street. (Central administrative district of Moscow)” No. 837-RP dated 19 May 2006;
<b>“Resolution No. 870-PP”</b>	Resolution of the Moscow Government “On the Recognition of Residential Buildings located in the Central Administrative Circuit as Dangerous for Use” No. 870-PP dated 22 October 2002;
<b>“Resolution No. 1913-RP”</b>	Resolution of the Moscow Government “On Construction of the Trade and Administrative Complex at Tsvetnoy Boulevard, 15/1” No. 1913-RP dated 28 September 2004;
<b>“Resolution No. 2096-RP”</b>	Resolution of the Moscow Government “On Realisation of Investment Project on Construction of the Trade and Administrative Complex at Tsvetnoy Boulevard, 15/1” No. 2096-RP dated 16 October 2006;
<b>“RGI Shareholders’ Agreement”</b>	a shareholders’ agreement relating to the Company dated 27 September 2006 between the Company, SSF III Father Holdings and D.E.S.;
<b>“RGI Subscription Agreement”</b>	a subscription agreement relating to the Company dated 27 September 2006 between the Company, SSF III Father Holdings and D.E.S.;
<b>“Rouble” or “Roubles”</b>	Roubles, the lawful currency for the time being of the Russian Federation;
<b>“Second Armix Share Purchase Agreement”</b>	a share purchase agreement dated 30 May 2006 and amended and re-stated on 15 November 2006 between Ms Martynenko Natalia Borisovna and Toucho Investments;

<b>“Second Dinas Share Purchase Agreement”</b>	a share purchase agreement dated 29 June 2006 and amended and re-stated on 25 August 2006 between Canalet Holding and Ms. Korobov Natalia Nikolaevna;
<b>“Second Ling Investments Share Purchase Agreement”</b>	a share purchase agreement dated 7 November 2006 between Hinter View, Toucho Investments and Teruel Investments;
<b>“Second Ostozhie Share Purchase Agreement”</b>	a share purchase agreement dated 15 June 2006 and amended and re-stated on 10 August 2006 between Ms Ryazanova Vera Anatolievna and Lemoriano Holdings;
<b>“Second Project Bureau Share Purchase Agreement”</b>	a share purchase agreement dated 30 June 2006 and amended and re-stated on 15 November 2006 between Toucho Investments and Boris Kuzinez;
<b>“Shareholder(s)”</b>	holder(s) of Ordinary Shares;
<b>“Shore Capital”</b>	Shore Capital Stockbrokers Limited
<b>“Stolichnye Gastronomy”</b>	OAD “Stolichnye Gastronomy: “Smolensky”, “Tsentrallyi”, “Okhotny Riad” and others”;
<b>“Stolichnoe Podvorie Share Purchase Agreement”</b>	a share purchase agreement dated 20 July 2006 (as amended on 21 July 2006) between Lafar Management and Gromov Stanislav Konstantinovich in relation to Stolichnoe Podvorie;
<b>“subsidiary”</b>	has the meaning contained in sections 736 and 736A of the Act;
<b>“Taganka Development”</b>	the multifunctional building to be constructed at 5-13 Nizhniy Tagansky Lane, Moscow;
<b>“Takeover Code”</b>	The City Code on Takeovers and Mergers;
<b>“Takeover Directive”</b>	Directive on Takeover Bids (2004/25/EC);
<b>“Takeover Panel”</b>	The Panel on Takeovers and Mergers established for the purposes of the Takeover Code;
<b>“Taxes Act”</b>	the UK Income and Corporation Taxes Act 1988;
<b>“Town Planning Code”</b>	the Town Planning Code of the Russian Federation adopted in 2004;
<b>“Tsvetnoy Act of Permitted Use”</b>	the Act of Permitted Use of the Land Plot No. A-1159/03 dated 1 December 2005;
<b>“Tsvetnoy Additional Land Plot”</b>	a land plot with a total area of 2,245 square metres located at 15/1 Tsvetnoy Boulevard, Moscow;
<b>“Tsvetnoy Building”</b>	a dilapidated non-residential building with a total area of 10,605.4 square metres located at 15/1 Tsvetnoy Boulevard, Moscow;
<b>“Tsvetnoy Building Share Purchase Agreement”</b>	a share purchase agreement dated 20 July 2004 between Stolichnye Gastronomy and Central Market;
<b>“Tsvetnoy Development”</b>	the primarily retail complex to be constructed at 15/1 Tsvetnoy Boulevard, Moscow;
<b>“Tsvetnoy Initial Land Plot”</b>	the land plot with a total area of approximately 3,755 square metres underlying the Tsvetnoy Building;
<b>“Tsvetnoy Land Lease”</b>	a long term lease agreement No. M-01-021041 dated 15 May 2002 between Stolichnye Gastronomy and the Moscow Government;

<b>“Tsvetnoy Land Lease Addendum”</b>	the addendum to the Tsvetnoy Land Lease dated 8 September 2004;
<b>“Tsvetnoy Town Planning Conclusion”</b>	the Conclusion on the Compliance of the Intended Construction with Town Planning Requirements No. 114, dated 17 August 2005;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Listing Authority”</b>	the FSA acting in its capacity as competent authority for the purposes of Part VI of FSMA;
<b>“Underwriting Agreement”</b>	the conditional agreement dated 6 December 2006 between the Company, KPMG Corporate Finance, Morgan Stanley, Shore Capital and the Directors, relating to the Offer Shares, further details of which are set out in paragraph 9 of Part VII of this document;
<b>“United States” or “U.S.”</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction;
<b>“US\$” or “US dollars”</b>	U.S. dollars, the lawful currency for the time being of the United States;
<b>“VAT”</b>	value added tax or any equivalent tax in any jurisdiction;
<b>“Zemlianoy Bank Guarantee”</b>	bank guarantee No. 07/OGR/5050793 dated 8 December 2005, to be issued by the International Moscow Bank ensuring the payment of 1,000,000 Roubles (approximately US\$37,000) to the benefit of DIPS in connection with the participation of Dinas in a tender organised by DIPS for the right to act as a co-investor in the construction of the Zemlianoy Development;
<b>“Zemlianoy Building”</b>	a dilapidated residential building with a total area of 1,438 square metres located at 70/1 Zemlianoy Val Street, Moscow;
<b>“Zemlianoy Co-Investment Contract”</b>	a co-investment contract dated 22 December 2005 between DIPS and Dinas;
<b>“Zemlianoy Development”</b>	the primarily office building to be constructed at 70/1 Zemlianoy Val Street, Moscow; and
<b>“Zemlianoy Land Plot”</b>	the land plot underlying the Zemlianoy Building.



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