



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or the action that you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 ("FSMA") who specialises in advising on the acquisition of shares and other securities.

Our Directors, whose names appear in Part V herein, accept responsibility, individually and collectively, for the information contained in this document and 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 there is no omission likely to affect the import of such information.

This document is an admission document which has been drawn up in accordance with the AIM Rules. This document has been issued in connection with the application for admission to trading (the "Admission") of the shares (the "Shares") in XXI Century Investments Public Limited (the "Company" or "we") on the AIM Market operated by London Stock Exchange plc. This document does not comprise a prospectus for the purposes of the Prospectus Rules published by the Financial Services Authority of the United Kingdom (the "FSA"), as amended (the "Prospectus Rules") and a copy of it has not been, and will not be, approved by the FSA.

Application has been made for all of our Shares in issue and to be issued, pursuant to the placing of Shares (the "Placing") on our behalf, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. 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 advisor. Neither London Stock Exchange plc nor the United Kingdom Listing Authority has examined or approved the contents of this document.

The whole of this document should be read. An investment in our Shares involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Investors should consider carefully the risk factors which are set out in Part II of this document.

## **XXI Century Investments Public Limited**

(Incorporated and Registered in Cyprus Under the Companies Law, Cap 113 (1951) of Cyprus)

Placing of 11,600,000 Shares  
in the form of Shares and Global Depositary Receipts  
at a price of 586 pence per Share and US\$10.40 per Global Depositary Receipt  
to raise US\$120,640,000  
and Admission of the Shares to trading on AIM

Nominated Advisor

ING Bank N.V., London Branch

**Expected share capital immediately following the Placing**

<u>Authorised</u>			<u>Issued and fully paid</u>	
<u>Number</u>	<u>Amount</u>	<u>Shares of par value of US\$0.01 each</u>	<u>Number</u>	<u>Amount</u>
40,000,000	US\$400,000		35,600,000	US\$356,000

The numbers for the authorised and issued share capital immediately following the Placing assume that no Shares are issued pursuant to the over-allotment arrangements entered into by us.

All the Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all the dividends and other distributions declared, paid or made in respect of Shares after Admission.

This document does not constitute an offer to sell or the solicitation of an offer to buy Shares, in any jurisdiction in which such offer is unlawful. In particular, this document is not for distribution in or into Cyprus or the United States or to any resident or citizen of the United States, Canada, Cyprus, Ukraine, Australia or Japan. In addition, the Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or under any state securities laws and may not be offered or sold in the United States. Purchasers of the Shares may not offer to sell, pledge or otherwise transfer the Shares in the United States or to, or for the benefit of, U.S. persons (other than distributors) unless such offer, sale, pledge or transfer is registered under the U.S. Securities Act or an exemption from registration is available. We do not currently plan to register the Shares under the U.S. Securities Act of 1933, as amended, or under the U.S. Securities Exchange Act of 1934, as amended.

Under Russian law, the Shares are securities of a foreign issuer. The Shares are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the Shares nor a securities prospectus in respect of the Shares has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation. The information provided in this document is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Shares in the Russian Federation.

Under Ukrainian law, the Shares are securities of a foreign issuer. The Shares are not eligible for initial offering and public circulation in Ukraine. Neither the issue of the Shares nor a securities prospectus in respect of the Shares has been, or is intended to be, registered with the State Commission for Securities and Stock Markets of Ukraine. The information provided in this document is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Shares in Ukraine.

The Shares have not been and will not be registered under the securities legislation of Cyprus. Accordingly, the Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly, in or into Cyprus or to any national, citizen or resident of Cyprus.

**ING**

ING Bank N.V., London Branch (“ING”) is acting for us, and no one else, in connection with the Admission and the Placing, and will not be responsible to any person other than us for providing the protections afforded to its clients or for providing any advice in relation to the Admission or the Placing. ING’s responsibilities as our nominated advisor under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to us or to any Director or to any other person whether in respect of his decision to acquire Shares in reliance on any part of this document or otherwise. No representation or warranty, express or implied, is made by ING as to any of the contents of this document for which we and our Directors are solely responsible. ING has not authorised the contents of, or any part of, this document and, without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by ING for the accuracy of any information or opinions contained in this document or for any omissions of any information, for which we and our Directors are solely responsible. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and the Admission and is not intended to inform or be relied upon by any subsequent purchasers of Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

We and ING have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) in connection with the issue or sale of the Shares in circumstances in which Section 21(1) of FSMA does not apply.

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by us or ING to permit a public offering of the Shares. Other than in the United Kingdom, no action has been or will be taken to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required, or doing so is restricted or prohibited by law.

The placing of Shares to persons who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom may be affected by the laws and regulations of the relevant jurisdiction. No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or an invitation to him to subscribe, apply for or purchase Shares unless, in the relevant territory, such offer or invitation could lawfully be made without compliance with any registration or other legal requirements other than any such requirements which have been fulfilled. Accordingly, persons (including, without limitation, nominees and trustees) receiving this document should not, in connection with the Placing, distribute or send the same into any jurisdiction where to do so would or might contravene securities laws or regulations. It is the responsibility of any person outside the United Kingdom to satisfy himself as to the full observance of the laws and any regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consent which may be required, and compliance with other necessary formalities including the payment of any issue, transfer or other taxes due in such territory.

This document has been prepared solely for the benefit of the limited number of prospective investors to whom it has been addressed and delivered and may not, in any circumstances, be used for any other purpose or be viewed as a document for the benefit of the public. The reproduction, distribution or transmission of this document (either in whole or in part) without our prior written consent is prohibited.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, ING has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of Shares to the public in that Member State, except that it may, with effect from and including such date, make an offer of Shares to the public in that Member State:

- (a) at any time to legal entities which 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;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an “offer of Shares to the public” in relation to any Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for Shares, as the same 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 that Member State.

In addition, until 40 days after the commencement of the Placing, any offer or sale of Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the U.S. Securities Act of 1933, as amended.

ING, as our agent, has agreed to procure subscribers for the Shares or, failing which, to subscribe itself as principal for such Shares at the Placing Price, on and subject to the terms of the Underwriting Agreement. The Shares are being placed by ING with institutional and other sophisticated investors and the Placing is conditional, *inter alia*, on Admission. Up to 11,600,000 of such Shares will be offered and placed in the form of Global Depositary Receipts, each representing one Share. The Global Depositary Receipts will be issued pursuant to a Deposit Agreement between the Company and The Bank of New York, as Depositary. The Global Depositary Receipts will not be admitted to AIM nor will they be listed on any other stock exchange. **The Global Depositary Receipts are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.**

In connection with the Placing, ING, as stabilising manager, may (but will be under no obligation to) over-allot or effect other stabilisation transactions with a view to supporting the market price of the Shares or GDRs or any options, warrants or rights with respect to, or interests in, the Shares, GDRs or our other securities, in each case at a higher level than that which might otherwise prevail in the open market. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of announcement of the Placing Price and ending on the thirtieth day after the date of announcement of the Placing Price. However, there is no obligation on ING to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. Save as required by law or regulation, ING does not intend to disclose the extent of any over-allotments and/or stabilisation transactions conducted in relation to the Placing.

In connection with the Placing, ING, as stabilising manager, has entered into Over-allotment Arrangements with us, pursuant to which ING, or any person acting for it, may subscribe, or procure subscribers for, up to 1,740,000 Over-allotment Shares at the Placing Price, for the purposes of allowing ING, or its agent, to meet over-allocations in connection with the Placing and to cover short positions resulting from stabilisation transactions. Any decision to subscribe, or procure subscribers for, any Over-allotment Shares is expected to be taken by no later than 12 January 2006. The Over-allotment Shares made available pursuant to the Over-allotment Arrangements will rank *pari passu* with all other Shares, including for all dividends and other distributions declared, made or paid on the Shares after Admission and will form a single class for all purposes with the Shares. See “Over-allotment Arrangements” of Part I of this document for further details of these arrangements.

In connection with the Placing, ING, and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or acquire Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any of our other securities or other related investments in connection with the Placing or otherwise. Accordingly, references in this document to the Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription, acquisition or dealing by ING or any of them and any of their affiliates acting as an investor for its or their own account(s). ING does not 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 has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by us or ING. Neither the delivery of this document nor any subscription or acquisition made under it shall, in any circumstances, create any implication that there has been no change in the affairs of the Company and its subsidiaries since the date of this document or that the information in it is correct as of any subsequent date.

This document contains forward-looking statements. Words such as “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “project”, “will”, “should”, “could”, “may”, “predict” and similar

expressions are typically used to identify forward-looking statements. You are cautioned that actual results could differ materially from those anticipated in forward-looking statements. Also, where the Company makes estimates, these estimates may differ from comparable estimates in the Property Valuation Report (the “DTZ Report”) prepared by DTZ Kiev B.V. (“DTZ”). Also, the forward-looking statements contained in this document are largely based on the Company’s expectations, which reflect estimates and assumptions made by our management and by DTZ in the DTZ Report. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this document are not guarantees of future performance, and we cannot assure any reader that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors”, as well as those included elsewhere in this document. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates (including production targets) and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on our behalf.

The DTZ Report is contained in Part VII herein. Your attention is directed, in particular, to the basis on which the report was prepared, the representations made by the Company to DTZ in the preparation of the report and the definitions, assumptions, explanations and qualifications relating to DTZ’s estimates set out therein. DTZ also relied, without independent verification, upon certain information furnished by us with respect to our properties that was accepted as provided and represented by us.

Illustrations and charts contained herein are principally derived from our internal information and have not been independently verified unless specifically indicated.

A copy of this document is available to the public, free of charge, during normal business hours at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA for one month from the date of Admission.

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## DEFINITIONS

“ <b>Admission</b> ”	means the admission of the entire issued and to be issued share capital of the Company to AIM.
“ <b>AIM</b> ”	means the AIM market operated by London Stock Exchange plc.
“ <b>catchment</b> ”	refers to the area that is readily accessible to a specific property. This is based on a radius estimated to be five minutes travel time by public transportation.
“ <b>CBD</b> ”	means the central business district.
“ <b>Company</b> ” or “ <b>we</b> ”	means XXI Century Investments Public Limited and, where the context permits, its subsidiaries.
“ <b>Depository Interests</b> ”	means the depository interests representing Shares which may be traded on CREST in dematerialised form.
“ <b>DTZ</b> ”	means DTZ Kiev B.V., international property advisors.
“ <b>DTZ Report</b> ”	means the Property Valuation Report of DTZ included herein in Part VII.
“ <b>Enlarged Share Capital</b> ”	means the Company’s share capital following the issuance and sale of Shares pursuant to the offering.
“ <b>Global Depository Receipts</b> ” or “ <b>GDRs</b> ”	means the global depository receipts, each representing one Share.
“ <b>Group</b> ”	means XXI Century Investments Public Limited and its subsidiaries.
“ <b>Nominated Advisor</b> ” or “ <b>ING</b> ”	refers to ING Bank N.V., London Branch
“ <b>Over-allotment Arrangements</b> ”	refers to the over-allotment arrangements ING, as stabilising manager, has entered into with the Company, pursuant to which ING, or any person acting for it, may subscribe, or procure subscribers for, up to 1,740,000 additional Shares (“ <b>Over-allotment Shares</b> ”) in the form of Shares or Global Depository Receipts at the Placing Price, for the purposes of allowing ING, or its agent, to meet over-allocations in connection with the Placing and to cover short positions resulting from stabilisation transactions.
“ <b>Placing</b> ”	means the placing of Shares of the Company in the form of Shares and Global Depository Receipts. The term “ <b>Placing Shares</b> ” means the Shares subject to this Placing, and “ <b>Placing Price</b> ” means the price at which the Shares are being offered.
“ <b>Shares</b> ”	means the ordinary Shares of the Company.
“ <b>shell-and-core</b> ”	refers to space that is delivered with the interior to be finished by the owner or lessee to its specifications and at its expense.

## **TIMETABLE OF PRINCIPAL EVENTS**

Admission and commencement of unconditional dealings in Shares on AIM .....	8:00 a.m. on 16 December 2005
Delivery of Depository Interests into CREST and of GDRs into Euroclear .....	16 December 2005

## KEY STATISTICS

Placing Price per Share .....	586 pence
Placing Price per GDR .....	US\$10.40
Number of Placing Shares .....	11,600,000
Number of Placing Shares to be offered as Global Depositary Receipts .....	11,600,000
Number of Shares subject to the Over-allotment Arrangements <sup>(1)</sup> .....	1,740,000
Number of Shares outstanding following the Placing <sup>(1)</sup> .....	35,600,000
Percentage of the Enlarged Share Capital subject to the Placing <sup>(1)</sup> .....	32.6%
Estimated cash proceeds of the Placing (gross) <sup>(1)</sup> .....	US\$120,640,000
Estimated cash proceeds of the Placing receivable by the Company <sup>(1)</sup> .....	US\$115,211,200
Market capitalisation of the Company at the Placing Price <sup>(1)</sup> .....	US\$364,811,200

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(1) Assuming that no over-allotment Shares are acquired pursuant to the Over-allotment Arrangements.

## EXCHANGE RATES

The rate of exchange used for the purpose of this document is, unless otherwise stated, US\$1.00=UAH 5.05 and £1.00 = US\$1.774.



## **DIRECTORS, SECRETARY AND ADVISORS**

### **Board of Directors**

Lev Partskhaladze  
Mykola Yerzhakhovskyy  
Taras Kutovyv  
Jaroslav Kinach  
Andriy Myrhorodsky  
Mark Holdsworth

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### **Nominated Advisor**

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### **As to Ukrainian Law**

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Ukraine

### **CREST Depository**

Computershare Investor Services PLC  
The Pavilions  
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United Kingdom

### **Depository for the Global Depository Receipts**

The Bank of New York  
101 Barclay Street, 22nd Floor  
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United States

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### **Company Secretary**

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### **Lead Manager and Broker**

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### **Reporting Accountants**

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### **Property Advisors**

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### **Transfer Agent**

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Ordnance House  
31 Pier Road  
St Helier  
Jersey

## PART I

### OUR BUSINESS AND PROPERTIES

#### Overview

We are one of the leading real estate development and property management companies in Ukraine. Our real estate business was founded in Kyiv six years ago and, during this time, it has expanded significantly. We develop and manage a diversified portfolio of real estate assets comprising shopping centres, high-end residential complexes and commercial properties. Our real estate activities comprise the following:

- **Shopping centres.** Our business was the first to develop a shopping centre in Kyiv in 1999. Since then, it has completed a total of seven shopping centres throughout the City under the “Kvadrat” brand name. We currently own and operate two of these shopping centres, comprising a total of 24,400 square metres, having successfully divested one underground centre in 2003 and another in 2004 and three underground centres in October 2005. We plan to develop five additional modern shopping centres in the capital region by the end of 2009, which will provide an additional 205,000 square metres to our total floorplate. Our Kvadrat brand is among the most recognisable names in shopping centres in the capital region as these centres are located at metro stations and other public transportation hubs. In the first nine months of 2005, our Kvadrat centres, including the three divested in October 2005, attracted an average of approximately 60,000 shoppers and visitors daily.
- **Residential complexes.** Our residential business was established in late 2002 to meet the growing demand for high-end apartments in downtown Kyiv. This business completed its first residential development in September 2005, having pre-sold all of the 42 apartment units prior to completion of construction. We are currently constructing a second residential complex, containing 47 apartments and a total liveable area of approximately 8,700 square metres, which we expect to complete in 2006. We also recently started construction of another residential complex with 186 apartments and total liveable area of approximately 23,200 square metres, which we expect to complete in 2007. We are currently planning the development of eight additional residential projects, and these are at various stages of preparation and development. We intend to acquire additional sites for residential development in the future.
- **Commercial Properties.** In early 2004 our business expanded into the development of other types of commercial properties, including hotels, business centres and warehouses. We are currently planning a 350-room hotel complex in the centre of Kyiv, which we expect to complete in early 2008. We are also planning to develop a mixed use office, shopping and entertainment complex of approximately 130,000 square metres in a residential area on the left bank of Kyiv, the first phase of which is scheduled for completion in 2007. We also plan to develop a modern warehouse and logistic complex on the outskirts of Kyiv since there is strong market demand for such facilities in the capital region. In addition, we are planning a 15,000 square metre office building in the centre of Kyiv, which is scheduled for completion in 2007.

DTZ has valued our properties at US\$271.9 million (excluding three properties identified as potential future development opportunities), as indicated in DTZ’s Report contained in Part VII of this document. The value attributable to our share of these properties, excluding the three development opportunities, is US\$205.9 million. The following Table provides additional information relating to our properties. In addition to the properties noted in the following Table, the Kyiv City Council has recently designated for our development five new residential sites, which are not included in the DTZ Report.

We intend to use proceeds of the Placing of Shares, together with other financing arrangements, for the development of these properties.

	<u>Year Completed/ Expected Completion</u>	<u>Total Area</u> (sqm)	<u>Value<sup>(1)</sup></u> (US\$ millions)	<u>Beneficial Ownership<sup>(2)</sup></u> (%)	<u>Beneficial Share of Value<sup>(3)</sup></u> (US\$ millions)
<b>Shopping centres</b>					
<b>Completed</b>					
Kvadrat Lukyanivka . . . . .	2003	9,200	13.2	67.0 <sup>(4)</sup>	8.8
Kvadrat Borschahivka . . . . .	2003	15,200	15.6	50.0	7.8
			28.8		16.6
<b>Planned</b>					
Kvadrat Perova . . . . .	2007	41,000	15.0	100.0	15.0
Kvadrat Balzaka . . . . .	2007	5,000	2.2	100.0	2.2
Kvadrat Myloslavska . . . . .	2008	50,000	24.3	100.0	24.3
Kvadrat Lisova . . . . .	2008	49,000	14.1	100.0	14.1
Kvadrat Virlytsia . . . . .	2009	60,000	—	100.0	— <sup>(5)</sup>
			55.5		55.5
<b>Residential complexes</b>					
<b>Under construction</b>					
Capitoliy . . . . .	2006	14,500	9.3	74.3	6.9
Parus . . . . .	2007	43,200	4.9	74.3	3.6
			14.2		10.6
<b>Planned</b>					
Klovsky Uzviz . . . . .	2007	24,900	2.9	74.3	2.1
Lypska Street . . . . .	2007	5,100	6.0	74.3	4.5
Yaroslaviv Val . . . . .	2008	29,500	7.2	37.0	2.6
Posolsky Dvir (serviced apartments) . .	2008	25,000	26.2	74.3	19.5
Kyianivsky Provulok . . . . .	2009	70,000	50.9	44.4	22.6
Voznesensky Yar . . . . .	2009	100,000	10.6	74.3	7.9
			103.8		59.2
<b>Commercial properties</b>					
<b>Planned</b>					
Vyshhorod (warehouse and logistics) . .	2006	90,000	2.3	99.0	2.2
Virlytsia (mixed use) . . . . .	2007 <sup>(6)</sup>	127,000	56.2	100.0	56.2
Luteranska Street (hotel complex) . . . .	2008	25,000	11.2	50.5	5.6
			69.6		64.0
<b>Total<sup>(7)</sup></b> . . . . .			<b>271.9</b>		<b>205.9</b>
<b>Other potential future developments</b>					
<b>Planned</b>					
Kruty Uzviz (office building) . . . . .	2007	15,000	1.4	74.3	1.1
Verkhnia (residential) . . . . .	2008	40,000	1.1	74.3	0.8
Tolstoho (residential) . . . . .	2008	40,000	5.3	74.3	4.0
			7.8		5.9
<b>Total<sup>(8)</sup></b> . . . . .			<b>279.7</b>		<b>211.8</b>

- (1) As reflected in the DTZ Report included in Part VII of this document. Minor differences in sub-totals are due to rounding.
- (2) See Section 2 “The Company” in Part X for a description of our ownership of the properties.
- (3) Represents the value reflected in the DTZ Report, adjusted to reflect our beneficial ownership of the property.
- (4) We have signed a letter of intent to acquire the remaining interests in Kvadrat Lukyanivka.
- (5) The DTZ Report valued the Virlytsia property in the aggregate, and the value of Kvadrat Virlytsia is included in the Virlytsia planned commercial property.
- (6) Completion of first phase of construction.
- (7) DTZ valuation, as set out in Part VII, does not include valuation of properties listed in Appendix III—Schedule 4, “Potential Future Development Opportunities”, thereto.
- (8) Included in Appendix III—Schedule 4 of the DTZ Report under “Potential Future Development Opportunities”. Accordingly, the value of the property is not included in the aggregate property value reflected in the DTZ Report.

## **Our Strengths**

We believe that we benefit from the following strengths:

***Extensive property development experience and contacts.*** We possess extensive experience in developing, managing and marketing real estate properties. Lev Partskhaladze, Chairman and founder of our Company, was one of the first to capitalise on opportunities in the Ukrainian real estate market following Ukraine's transition to a market economy. He and our management team have worked together since 1999 developing seven shopping centres, as well as Triumphal Arch, a residential property located in the centre of Kyiv. During these years, Lev and our management team have built extensive contacts among local and foreign developers, contractors, architects and suppliers, as well as developed close links with Kyiv's municipal officials through joint participation with the City of Kyiv in international trade exhibitions. We believe that this extensive experience and market knowledge is particularly important since property development in Ukraine is a complicated process involving practical problems that are not typical in western markets, including numerous approvals from multiple administrative authorities. This experience and our extensive contacts enable us to capitalise on potential opportunities in Kyiv's high-growth property market.

***First-mover advantage in the shopping centres segment.*** In the late 1990s, Lev Partskhaladze was the first to develop a shopping centre following Kyiv's municipal authorities inviting developers to create shopping centres as part of a plan to revitalise the downtown area of Kyiv. Working closely with Kyiv's municipal authorities, our management team developed the first shopping centres in Kyiv and have completed seven centres since 1999. As a result of our initiatives and developments, we have formed a strong working relationship with the Kyiv municipal authorities.

***Strong and well-recognised brand name.*** Independent market research indicated that our "Kvadrat" brand is among the most recognisable names in shopping centres. We believe that this strong brand name recognition enables us to attract major tenants and shoppers to our centres.

***Access to attractive investment opportunities.*** The City of Kyiv allocates land for development through open tenders or applications for leases, both of which take into account not only the value of bids received but also consider an assessment of each bidder's ability to complete the proposed project. We believe that our reputation and experience, as well as our international contacts, provide us with a distinct competitive advantage in tendering for land as compared to less established developers. In addition, these same factors also attract offers from private entities which hold rights to develop land plots, but which do not have the resources and experience to develop those properties on their own.

***Strong management team.*** Most of the senior members of our management team have been with our Company for several years and have grown with us contributing to our success. The management team comprises well-educated professionals who we believe are also highly motivated and work closely and effectively together. Our management team is experienced in adapting Western real estate concepts and practices to local conditions.

***Diversified real estate portfolio.*** Our portfolio of properties and projects under development includes high-end residential complexes, retail projects and commercial development. We believe that the scale and diversified nature of our real estate portfolio minimises the risks associated with any particular project or market segment. We believe this diversified project pipeline will provide us with a balanced property portfolio including both income-yielding and capital growth projects.

***Low debt levels.*** We financed our expansion primarily through equity investment and cash flows generated by the projects themselves. Consequently, we have low debt levels. Because of this low leverage, we can quickly access debt financing, creating additional operational flexibility in pursuing future development opportunities.

***Transparent corporate governance and financial reporting.*** Our senior managers have extensive experience in working with Western institutions. Drawing upon this experience, we established a set of corporate governance and financial reporting principles in our group in order to ensure transparency of our business operations. We believe that this approach enhances our reputation and helps us attract Western capital.

## **Our Strategy**

Our overall objective is to become the leading real estate development and property management company in Ukraine. We intend to maximise returns on invested capital and enhance our reputation through selective development of quality projects. We intend to accomplish these objectives by leveraging

our successful experience in Kyiv's highly competitive real estate market by adapting successful Western concepts and practices to the Ukrainian market. In addition to our general corporate strategy, we also have a clearly defined, market-driven strategy for each of our three business segments. The main elements of our strategy include the following:

***Continue to build a pipeline of attractive sites for future development.*** We intend to continue to select and acquire ownership and leasehold rights to attractive sites for future retail, residential and commercial developments. Our focus on new developments is based on our belief that new projects will provide substantially greater returns than investments in completed developments. We believe that our being selective in choosing sites and projects will allow us to maximise returns and minimise risks. In particular, our focus will continue to be on developing investment-grade properties to international standards, which we believe will be in high demand and will generate the strongest investment returns in the foreseeable future. Investments in income-generating properties will be expected to generate stable cash flows sufficient to cover the day-to-day expenses of such properties, and especially provide the potential for capital appreciation.

***Outsource portions of the development process.*** In order to optimise our management resources and minimise risks, we retain third party specialists from among our wide range of international contacts to manage and advise on principal components of the property development cycle. We believe that the Ukrainian real estate market is rapidly evolving, and that consumer tastes and tenant requirements are converging with those in more developed Western markets. We believe that retaining specialists, particularly those with extensive experience in Western markets, will enable us to effectively anticipate and respond to changes in the Ukrainian market and enhance our internal know-how and expertise. This outsourcing approach also allows us to maintain a lean management team.

***Maintain a diverse property portfolio to reduce risks.*** We will seek to maintain a diverse portfolio of retail, residential and commercial properties to minimise our exposure to the risks associated with any particular real estate sector. We also intend to seek opportunities outside the capital region in order to geographically diversify our portfolio and to capitalise on growth opportunities in other local markets throughout Ukraine. Although Kyiv's property market has historically generated the greatest returns, we believe that potentially attractive opportunities exist in other Ukrainian cities and developing regions, such as Crimea, where we are currently engaged in negotiations with respect to developing property.

***Develop clearly defined strategies for each operating and business segment.*** Each of our business segments has a market-driven and end-user oriented strategy.

- ***Kvadrat retail shopping centres.*** This business will focus on the development of large-format shopping centres, with total floorplates of between 40,000 to 60,000 square metres, capable of accommodating a hypermarket and leisure facilities, such as cinemas and food courts. We intend to locate new shopping centres in high density residential areas on the perimeter of Kyiv where sites are larger and less expensive, and preferably near major public transportation hubs. The store mix will cater to every day family needs and appeal to low and middle-level income groups, which we believe represent the fastest growing segments of the Ukrainian population. Before the end of the decade, we intend to expand to the principal cities in various regions of Ukraine.
- ***Zhytlo residential apartments.*** We intend to continue to build high-end apartments in desirable locations in central Kyiv, particularly near historic and cultural landmarks where most of our sites are located. We will seek to build our residential brand name by maintaining a reputation for quality apartments that provide good value to buyers. We believe that we will be able to pre-sell our apartment units prior to completion of construction based on expected continued strong demand and the attractive locations of these sites. To broaden the market for our residential developments, we also intend to develop, in cooperation with leading Ukrainian banks, mortgage financing schemes for buyers. In the medium term, our intention is to move beyond "shell-and-core" apartments and provide buyers the option to purchase fitted-out apartments. In addition, we will also consider the possibility of providing maintenance services to our buildings on behalf of apartment owners when legislative conditions improve in this regard.
- ***Commercial property.*** We intend to develop our commercial properties and involve strategic partners where warranted, with the objective of selling these properties to international institutions once stable income streams are established. We intend to partner with solid financial and strategic partners who have technical expertise, know-how and financial resources, to develop with us each of our sites. We believe that this approach will maximise potential returns, minimise risks and improve the marketability of these projects.

***Optimise our capital structure and consolidate our existing partnerships.*** Over the past ten years our business has grown rapidly through the use of joint venture partnerships. Our partners in these ventures provided financing during a period when the local lending market was undeveloped and financing was not available on acceptable terms. We are now consolidating these general partnerships through negotiated re-purchases of the interests of our joint venture partners. Having full control of these properties will enable us to utilise debt financing more effectively with respect to these important assets. In the future, we expect to establish joint venture partnerships, where appropriate, with strategic or institutional investors. We believe that this approach will broaden our access to financing, improve financing terms, in addition to providing us with access to know-how and expertise.

### **History and Operational Structure**

Our business has evolved from, and is a continuation of, the real estate activities started in 1995 by our chairman, Lev Partskhaladze. Our Company was established in October 2003 to consolidate the various real estate activities incorporated under different legal entities but controlled by Mr Partskhaladze. In December 2003, Mr Partskhaladze contributed the equity interests in his various real estate subsidiaries to the Company and since then, the Company has been the top level holding company for the XXI Century Group.

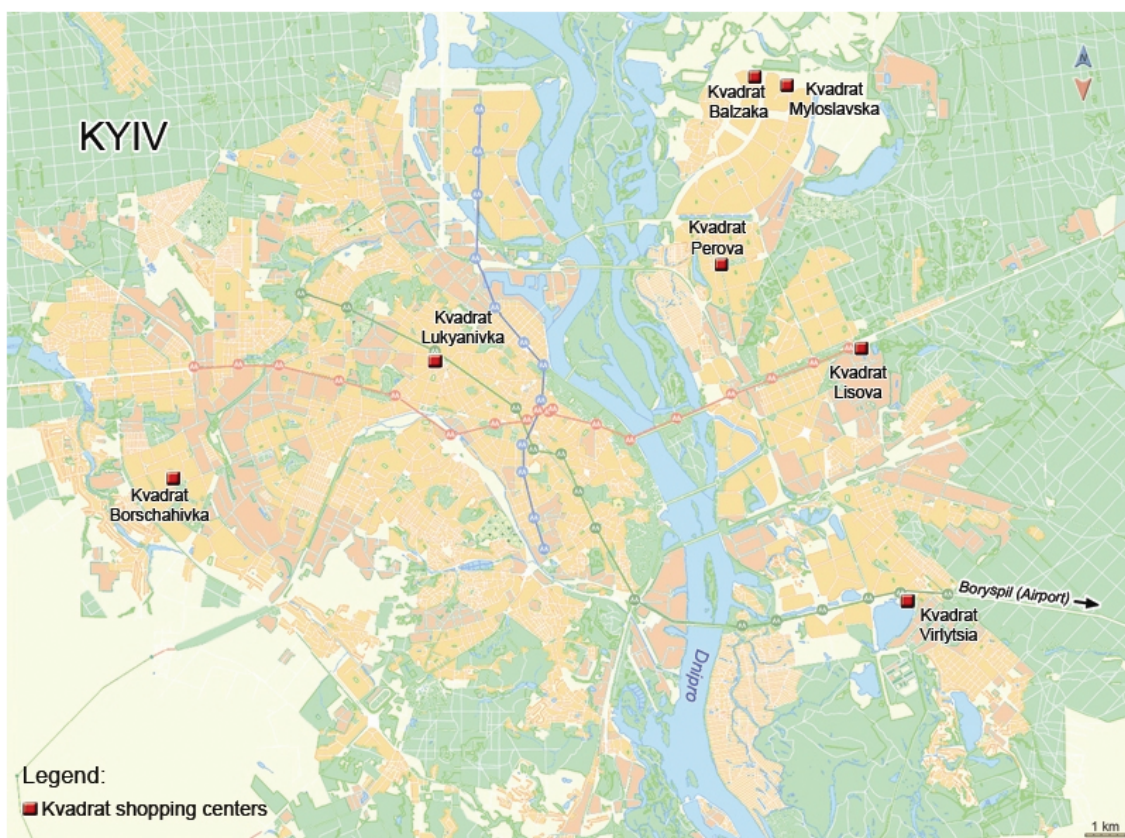
The effect of the restructuring was to separate our core businesses from the non-core businesses. These non-core businesses include individual restaurants and the fast food chain “Shvydko”, developed with Western NIS Enterprise Fund as a financial partner. This reorganisation has enabled the Company to focus on becoming the leading developer in the retail, residential and commercial real estate sectors, and facilitated the organisation of these businesses according to their business segments, each with a separate management team. Each of these business segments are supervised by our Investment Committee, which sets corporate policies and strategy and establishes objectives and operating parameters for each business segment.

## Overview of Properties and Projects

Each of our primary businesses is described separately below.

### Shopping Centres

Our Kvadrat shopping centre business designs and builds shopping centres, as well as manages the individual Kvadrat centres. We own and operate two Kvadrat shopping centres, comprising a total of 24,400 square metres in Kyiv, and have five additional shopping centre projects in various stages of development in the high density residential communities on the perimeter of Kyiv. The following map of Kyiv shows the location of our existing Kvadrat and planned shopping centres.



The table below provides information regarding our existing Kvadrat shopping centres as of September 30, 2005:

	<u>Year Completed</u>	<u>Total Area, sqm</u>	<u>Gross Leasable Area, sqm</u>	<u>Number of Tenants</u>	<u>Rent, US\$ per sqm<sup>(1)</sup></u>	<u>Occupancy Rate, %</u>
Kvadrat Lukyanivka .	2003	9,200	6,200	116 <sup>(2)</sup>	\$13-\$183	100
Kvadrat Borschahivka . . . . .	2003	15,200	11,800	205 <sup>(2)</sup>	\$11-\$133	100

(1) Per month, net of value added tax, cost of utilities and maintenance fees.

(2) Kvadrat Lukyanivka includes eight office tenants leasing a total of 265 square metres and Kvadrat Borschahivka has 26 office tenants leasing in aggregate 550 square metres.

Generally, lease agreements with our tenants are entered for a period of up to one year with renewal and extension options. This allows our tenants to avoid the expenses of registration and notarisation of lease agreements. Most leases require a three-month prepayment and rental payments are payable monthly in advance. Tenants take possession of leased space in “shell-and-core” condition, and take responsibility for the final fit-out costs.

Day-to-day management of each Kvadrat is handled by a local management team based at the shopping centre. Local management is responsible for bookkeeping and responding to tenant issues, as well as coordination of security, building and facilities maintenance and other local matters. In addition to each

local management team, there is a centralised management group in head office that is responsible for overall strategic planning, site selection, project development, leasing and marketing for the whole business.

Our growth-oriented strategy calls for five new Kvadrat shopping centres to be built in the high density residential communities surrounding Kyiv by the end of 2009. Each of these new sites will be located on a major thoroughfare and near major public transportation hubs, and will have space for parking. We have also redesigned our shopping centre format, adapting successful Western concepts. Each new Kvadrat shopping centre will have a total floorplate of between 40,000 to 60,000 square metres to accommodate a hypermarket, leisure facilities such as cinemas and food courts, as well as a wider selection of stores catering to each member of the family and their everyday needs. The store mix will cater to low and middle level income groups, which we believe represent the fastest growing segment of the Ukrainian population.

The following table provides information relating to our planned Kvadrats:

	<u>Expected Completion</u>	<u>Total Area, sqm</u>	<u>Estimated Number of Tenants</u>	<u>Population in the Catchment Area<sup>(1)</sup></u>
Kvadrat Perova . . . . .	2007	41,000	75	100,000
Kvadrat Balzaka . . . . .	2007	5,000	40	300,000
Kvadrat Myloslavska . . . . .	2008	50,000	120	300,000
Kvadrat Lisova . . . . .	2008	49,000	150	260,000
Kvadrat Virlytsia . . . . .	2009	60,000	120	260,000

(1) Encompasses a radius estimated to be five minutes of travel time by public transportation.

Each of our existing and planned shopping centres is described below.

***Kvadrat Lukyanivka on Artema Street***

Kvadrat Lukyanivka was completed in June 2003 at a cost of US\$4.9 million. This Kvadrat was Kyiv’s first above-ground, purpose-designed shopping and office centre. The centre is targeted at metro commuters offering a large variety of small “boutique” shops in addition to major tenants comprising popular local brand name stores. Kvadrat Lukyanivka is located above the Lukyanivka metro station on Melnikova Street in a middle class residential area adjacent to the centre of Kyiv. The centre has an average footfall of 16,000 each day, while the catchment area holds a population of approximately 50,000. We beneficially own 67 per cent. of Kvadrat Lukyanivka, with three other partners holding the remainder of the interests. We recently signed a Letter of Intent with the minority holders to acquire their interests. Our intention is to consolidate 100 per cent. interest in Kvadrat Lukyanivka in order to optimise the value of this property.

Kvadrat Lukyanivka is a five-story building, of which four stories are above ground, occupying a site of 0.4 hectares. It has a total area of 9,200 square metres of which 6,200 square metres comprise rentable space, including 265 square metres of office space. Kvadrat Lukyanivka has 90 parking spaces. The occupancy rate throughout 2004 and during the nine months ended 30 September 2005 was 100 per cent. Tenant turnover averaged two per cent. in 2004 and two per cent. during the nine months ended 30 September 2005.

Kvadrat Lukyanivka has four anchor tenants: Silpo, a well-known local food supermarket chain; Antoshka, a children’s clothing and toy store; Kosmo, a well-known chain of cosmetic stores; and Multi, a chain of gift stores. These anchor tenants occupy approximately 60 per cent. of the rentable space within the centre. Overall, this centre has more than 100 other tenants.

The monthly rental rates for retail space as of 30 September 2005 ranged from US\$13 to US\$183 per square metre (net of VAT, utilities and maintenance fees), while the monthly rental rates for office space averaged US\$15 per square metre (net of VAT, utilities and maintenance fees).

Kvadrat Lukyanivka sits on land held by “LLC Soyuz Inform” through two separate land leases expiring in December 2006 and December 2010. The land rent, which is a fixed percentage of the site value, is currently UAH 182,256 (US\$36,450) per annum with annual indexation. The lease agreements contain a provision which grants us a pre-emptive right to extend the term and a right of first refusal to purchase the land plots at their agreed market value.

The third floor of the property is subject to a mortgage agreement with Joint Stock Post Pension Bank “Aval” securing the obligations of CJSC “Kvadrat-Ukraine” for loans in the amount of US\$2.1 million



expiring on 8 February 2008. The purpose of this credit facility was to finance a buyout of the third floor at Kvadrat Lukyanivka from an unrelated party. As of 1 November 2005, the outstanding balance under this facility was US\$1.2 million.

#### ***Kvadrat Borschahivka at Hnata Yury Street***

Kvadrat Borschahivka, our newest retail centre, was completed in December 2003 at a cost of US\$4.2 million. Kvadrat Borschahivka is located beside a major roadway, Hnata Yury Street, in a densely populated lower-middle income class residential area with approximately 75,000 residents. This Kvadrat is targeted at the local population. Approximately 10,000 shoppers visit this Kvadrat daily, and approximately 75 per cent. are local residents. We hold a 50 per cent. interest in the special purpose entity that owns Kvadrat Borschahivka, with one other partner. We are negotiating the acquisition of our partner's 50 per cent. interest in Kvadrat Borschahivka, however negotiations have not yet concluded.

The property occupies a site area of approximately 1.1 hectares under a 15-year lease starting from September 2003 and held by LLC "Kvadrat Hnata Yury". The land rent, which is a fixed percentage of the site value, is currently UAH 84,272 (US\$16,900) per annum with annual indexation. The lease agreement contains a provision which grants us a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value.

Kvadrat Borschahivka consists of a five-story building, with four stories above ground. It has gross space of 15,200 square metres and 11,800 square metres of rentable space. Parking facilities at Kvadrat Borschahivka can accommodate up to 200 automobiles. The occupancy rate in 2004 and during nine months ended 30 September 2005 averaged 100 per cent. Kvadrat Borschahivka had tenant turnover of 3 per cent. in 2004 and 2 per cent. during the nine months ended 30 September 2005.

The tenants are generally well-known Ukrainian retail chains and small individual operators targeting the local population. Kvadrat Borschahivka has five anchor tenants: Silpo, a major local chain of food supermarkets; DC, one of Ukraine's largest cosmetics chain stores, Domotechnika, a major chain store selling household appliances and furnishings; Multi, a well known chain of gift stores; and Sela, a clothing chain store. These anchor tenants occupy approximately 50 per cent. of the rentable space within the centre. This Kvadrat has more than 170 other tenants.

The monthly rental rates for retail space as of 30 September 2005 ranged from US\$11 to US\$133 per square metre (net of VAT, utilities and maintenance fees), while the monthly rental rates for office space ranged between US\$7 and US\$19 per square metre (net of VAT, utilities and maintenance fees).

#### ***Kvadrat Perova at Perova Boulevard (Construction starting shortly)***

Kvadrat Perova will be one of Kyiv's most modern shopping centres and it will also be our first shopping centre based on our new large scale format. This Kvadrat also launches our new strategy to cover the high density residential communities on Kyiv's left bank. Construction of this three-story retail and entertainment centre on Perova Boulevard will start in January 2006 and is scheduled for completion in mid 2007. Perova Boulevard is the main street of a middle income class neighbourhood with a catchment of approximately 100,000 residents.

Kvadrat Perova, with a planned total area of 41,000 square metres, including underground parking for approximately 400 automobiles, will be our largest retail project to date. The total cost of Kvadrat Perova is expected at US\$27 million. We expect to finance construction of this centre from a combination of debt and equity, and we have Letters of Intent from two major banks to provide stand-alone project financing for this new Kvadrat.

We will position Kvadrat Perova as a local shopping and entertainment centre that will appeal to middle and lower-middle class consumers in the immediate and nearby districts. This location has been a popular and traditional destination based around the Perova cinema, which will now be part of our retail complex. Tenants at Kvadrat Perova will include major local brand name chain, a food supermarket, domestic appliance stores, furniture and clothing stores, as well as a rebuilt modern movie theatre and a food court.

We have signed Letters of Intent and pre-lease agreements with major tenants and local brand name chain stores for approximately 75 per cent. of the gross leasable area at Perova. Two of our potential anchor tenants include a major local brand name food supermarket store and a multiplex movie theatre operator. We expect that this Kvadrat will achieve 100 per cent. occupancy within one year of completion. The monthly rent at Kvadrat Perova is expected to range from US\$16 to US\$102 per square metre (net of VAT, utilities and central services).

The 2.5 hectare site is leased from the Kyiv City Council by our 100 per cent. controlled subsidiary OJSC “Aurora” for a period of 25 years expiring in 2029. The annual rental payment is UAH 425,976 (US\$85,200). The lease agreement contains a provision which allows us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value. As with all of our other properties leased from the Kyiv City Council, we are obligated to provide the City with a contribution. For all commercial properties, this contribution is a cash payment calculated as a percentage of total construction costs.

#### ***Kvadrat Balzaka at Onore de Balzaka Street (Under Development)***

We are planning a small, 5,000 square metre Kvadrat on Onore de Balzaka Street in the Troyeschyna residential community on the left bank of Kyiv. This 0.4 hectare site is located in a densely populated residential area adjacent to a busy suburban dual carriageway. A new metro station is planned near the site.

Kvadrat Balzaka will have two stories and outdoor parking. We estimate the total cost of this project to be approximately US\$3.3 million.

The land is held by our subsidiary CJSC “Kvadrat-Ukraina” under a five-year lease agreement with the Kyiv City Council, expiring in 2010. The annual rental payment is UAH 9,170 (US\$1,815) prior to completion of construction of the centre and UAH 24,453 (US\$4,842) thereafter. We are obliged to complete the construction of the centre by October 2008. The lease agreement contains provisions which allow us to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

We are discussing leasing arrangements with prospective anchor and other tenants but have not yet signed any Letters of Intent. Nevertheless, we expect to achieve 100 per cent. occupancy within one year after completion of this new Kvadrat. We expect the monthly rent at this Kvadrat to range from US\$15 to US\$60 per square metre (net of VAT, utilities and central service charges).

#### ***Kvadrat Myloslavska at Myloslavska Street (Under Development)***

Our Kvadrat Myloslavska is in the early stages of development with opening planned for 2008. This new Kvadrat will build on the experience of Kvadrat Perova, and will continue our strategy to extend the presence of Kvadrat shopping centres to Kyiv’s high density residential communities on Kyiv’s left bank. The property is adjacent to a busy suburban dual carriageway and a planned new metro station in close proximity to the site. Kvadrat Myloslavska will serve a local population of 300,000 residents in its catchment area.

Kvadrat Myloslavska is expected to have a gross area of approximately 50,000 square metres covering two stories on a site of 7.3 hectares. This centre is expected to contain approximately 1,000 parking spaces. We estimate the total cost of this project to be approximately US\$40 million.

The land is held by our subsidiary CJSC “Kvadrat-Ukraina” under a 25-year lease agreement with the Kyiv City Council and expiring in 2030. The annual rental payment is UAH 44,853 (US\$8,900) prior to completion of construction and UAH 119,607 (US\$23,700) thereafter. We are obliged to complete the construction of this Kvadrat by October 2008. The lease agreement contains a provision which allows us to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

We already have signed Letters of Intent to pre-lease approximately 20 per cent. of the planned gross leasable area and expect to achieve 100 per cent. occupancy within one year after completion. We expect the monthly rent at this Kvadrat to range from US\$10 to US\$100 per square metre (net of VAT, utilities and central service charges).

#### ***Kvadrat Lisova at Popudrenka (Under Development)***

Kvadrat Lisova will be another large scale modern shopping centre located in a high-density residential neighbourhood with a catchment of 260,000 residents. This Kvadrat will be located in a middle and lower-middle income class residential community and in close proximity to a busy metro station. It will also adjoin a major highway leading to Brovary, a residential community adjacent to Kyiv, most of whose residents commute to the capital region to work.

Kvadrat Lisova is designed to be a two-story shopping centre with a total area of approximately 49,000 square metres and approximately 1,000 parking spaces on a site of 5.6 hectares. We expect to open Kvadrat Lisova by the end of 2008 and it will cost approximately US\$40 million. We expect to arrange stand-alone project financing for this Kvadrat using a combination of debt and equity.

We hold the 5.5 hectare property through CJSC “Kvadrat Ukraina” under a 15-year lease from the Kyiv City Council, expiring in 2020. Adjacent to this land plot is a 0.1 hectare parcel to be used for parking that we hold under a five-year lease expiring in 2010. The annual rental payment is UAH 131,800 (US\$26,100) prior to opening of this Kvadrat and UAH 351,432 (US\$70,000) thereafter. We are obliged to complete the construction of the centre by October 2008. The lease agreement contains provisions which grant us a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value.

We will position Kvadrat Lisova as a local shopping and entertainment centre that is intended to appeal to middle class consumers. It will reflect our strategic template and include an anchor brand name food supermarket, food court and family entertainment facilities, as well as a variety of brand name shops catering to the whole family at affordable prices.

We have signed Letters of Intent to pre-lease approximately 20 per cent. of leasable space at Kvadrat Lisova. Two of our potential anchor tenants include a major food supermarket chain store and a multiplex movie theatre operator. We are discussing pre-lease arrangements with other local brand name chain stores and expect to achieve 100% occupancy levels within one year after completion. The monthly rent at Kvadrat Lisova is expected to range from US\$10 to US\$100 per square metre (net of VAT, utilities and central service charges).

#### ***Kvadrat Virlytsia at Prospekt Bazhana (Under Development)***

Kvadrat Virlytsia will have a total area of approximately 60,000 square metres over two floors and parking facilities for approximately 1,200 automobiles on a site of 5.0 hectares. This Kvadrat will be located on Prospekt Bazhana, in a high density residential community on Kyiv’s left bank and adjoining one of the principal roadways connecting Kyiv and Boryspil International Airport. This Kvadrat will be located beside a metro station.

Kvadrat Virlytsia will be part of mixed use development we are planning at this location where we control approximately 25 hectares. The property is leased from the Kyiv City Council by our subsidiary LLC “Mriya Invest” under a five-year lease, expiring in November 2010. (See “—Commercial Real Estate Division”). The total construction cost of this Kvadrat is estimated at approximately US\$50 million with opening planned by the end of 2009.

We will position Kvadrat Virlytsia as a modern local shopping and entertainment centre that will appeal to middle class consumers in the catchment area which contains approximately 260,000 residents. We expect our tenants at Kvadrat Virlytsia to include major local brand names in the food supermarket business, domestic appliances, furniture and household furnishings, clothing and accessories stores, as well as a food court, a movie theatre and other entertainment facilities.

We have signed Letters of Intent to pre-lease approximately 15 per cent. of the gross leasable area at Kvadrat Virlytsia. Two of our potential anchor tenants include a major food supermarket and a multiplex movie theatre operator. We are exploring and negotiating pre-lease intentions and agreements for the remaining space with important local brand name chain stores and expect to achieve an occupancy level of 100 per cent. within one year after completion. The monthly rent at Kvadrat Virlytsia is expected to range from US\$10 to US\$100 per square metre per month (net of VAT, utilities and central service charges).

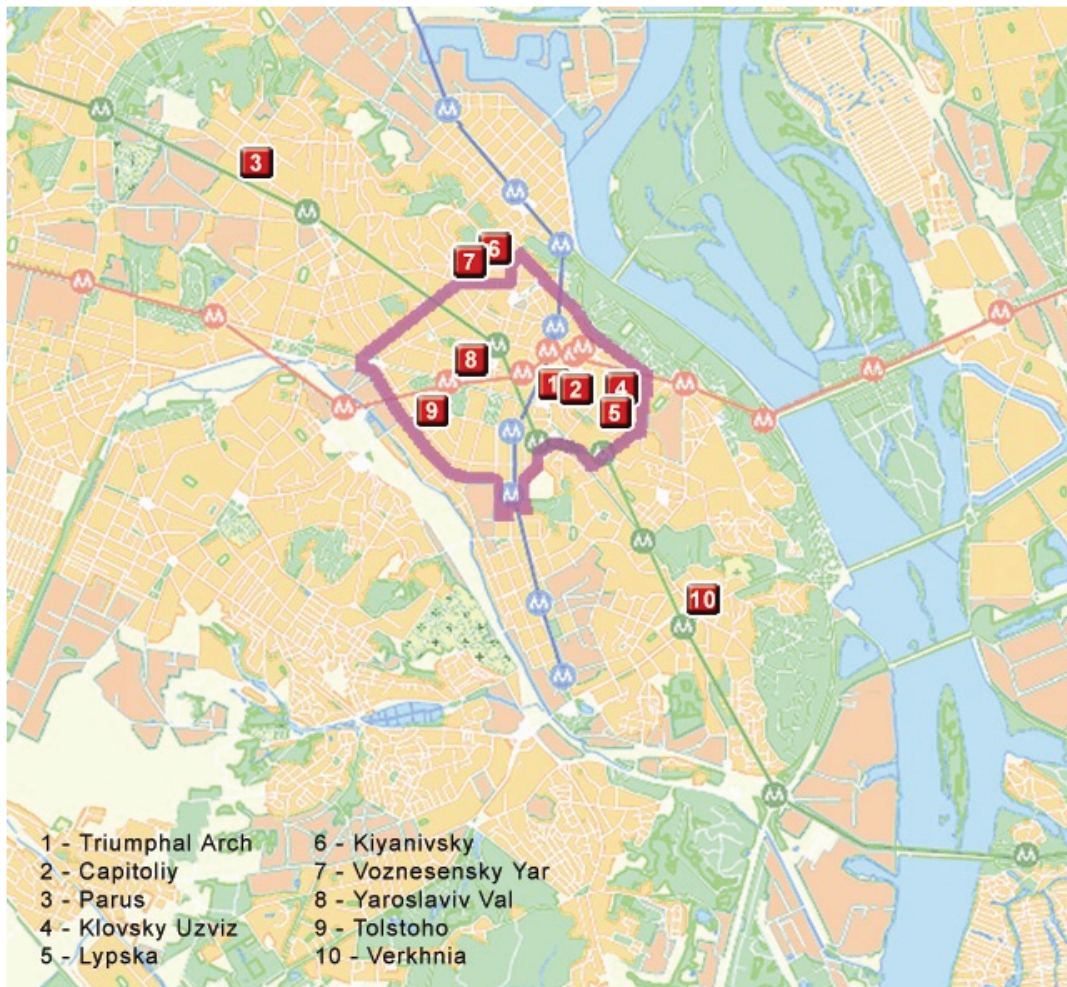
#### ***Other Kvadrat Sites Under Consideration***

We plan to acquire two to three additional sites in high-density residential communities on the perimeter of Kyiv for development of additional Kvadrat shopping centres. The concept and template for these Kvadrats will be similar to the sites currently under development and in the planning stages. We expect to complete our Kvadrat expansion plan and coverage of the capital region by the end of 2010.

Towards the end of the decade, and starting in late 2008, we intend to begin the expansion and roll-out of Kvadrat centres to principal regional cities throughout Ukraine. We intend to open three regional Kvadrat retail centres by the end of 2010. The estimated cost of this regional expansion is approximately US\$60 to US\$70 million.

#### **Residential Properties**

The residential property division, Zhytlo, develops, builds and sells residential apartments to the more affluent segment of Kyiv’s population. Most of the building sites are within or near Kyiv’s downtown area, close to important historic and cultural landmarks.



In line with the growth of Ukraine’s gross domestic product, particularly in the capital region, there is a growing demand for high quality properties in Kyiv. As our residential business expands, we intend to build the Zhytlo brand and associate it with attractive locations, quality construction and value.

Our residential properties are generally sold as “shell-and-core” apartments, which allow buyers the option of fitting-out the interiors of their apartment units, at their own expense, to suit their individual tastes. We may, in the future when market conditions require, provide customised fit-outs of apartments. In addition, we will also consider providing property maintenance and management services, rather than transferring those responsibilities to the municipal authorities when the buildings are complete and the apartments are sold; however, this will depend on improvements in the legal environment. We also plan to provide mortgage financing arrangements for potential purchasers of our apartment units in order to improve their marketability.

Sales of apartments under construction in Ukraine are usually arranged through a mechanism which allows purchasers to avoid stamp and capital gains taxes. This process involves the use of our two subsidiaries, LLC “Dim i K” and LLC “Garant-Invest”, which issue discounted bonds that are purchased by our licensed investment company CJSC “Investment Company XXI Century”. Prospective buyers of our apartments enter into an agreement to purchase the bonds with a par value equal to the purchase price of the subject apartment unit from this investment company. Many buyers typically pay the full purchase price up front. However, some buyers may amortise their payments by making an initial payment of 30 per cent. of the par value and then monthly progress payments until the full par value is paid prior to completion of construction. Zhytlo uses the cash down payment and progress cash payments to fund construction costs. Pursuant to these arrangements, upon full payment of the par value of the bond, the holders may return their bonds to the developer in exchange for the desired apartment unit.

Triumphal Arch on Luteranska Street was the first apartment building completed by our residential management team.

	<u>Year Completed</u>	<u>Liveable Area, sqm</u>	<u>Number of Units</u>	<u>Average Sale Price per sqm</u>	<u>Percentage Sold</u>
Triumphal Arch. . . . .	2005	6,350	42	US\$2,650	100%

Triumphal Arch, located in the historic centre of Kyiv on Luteranska Street, was completed in September 2005 at a cost of US\$9 million. Triumphal Arch is within walking distance from Kyiv’s main business, governmental and cultural sites, and is conveniently located beside Kyiv’s main street Khreschatyk, as well as close to metro and other means of public transportation.

Triumphal Arch is an eleven-story brick building with 42 modern apartment units and a liveable area of 6,350 square metres. The size of the apartment units ranges between 80 and 350 square metres, and these were all sold as “shell-and-core”. The building has central air conditioning, a water purification system and is fitted with a centralised security system, in addition to underground parking facilities for 35 automobiles.

Most of the apartment units at Triumphal Arch were pre-sold during construction, at prices ranging between US\$1,500 and US\$3,000 per square metre. Following the sale of all apartment units, we transferred the building to Kyiv City State Administration, which manages and services the building. The owners pay for their utilities and common charges relating to the upkeep of the building directly to the municipal authorities.

Zhytlo is currently developing two new residential projects in downtown Kyiv, Capitoliy and Parus. Information regarding these projects is set forth in the table below:

	<u>Expected Completion</u>	<u>Saleable Area<sup>(1)</sup></u>	<u>Number of Units</u>	<u>Average Sale Price<sup>(2)</sup> per sqm</u>	<u>Percentage of Saleable Area Pre-Sold</u>
Capitoliy. . . . .	2006	11,600	47	US\$2,380	59
Parus. . . . .	2007	29,000	186	US\$1,327	8

(1) Saleable area includes the apartment units and parking space.

(2) Average sale price includes price of apartment units (liveable space) and of parking space.

***Capitoliy at Kreschatyk Street (Under Construction)***

We are currently constructing a second high end residential apartment building located very close to Khreschatyk, Kyiv’s main street, with completion expected by the end of 2006. The Capitoliy site is within walking distance to Kyiv’s main business, governmental and cultural sites and is conveniently located close to metro and other means of public transportation. We hold a 74 per cent. beneficial interest in the special purpose entity that is developing Capitoliy, with Gestfair Limited, a private company controlled by the managing director of Zhytlo.

Capitoliy is designed to be a 15-story building, with 13 stories above ground. It will contain 47 apartment units and a liveable area of 8,700 square metres. The size of the apartment units will range between 114 and 220 square metres. Capitoliy will also contain several units which can be used as offices. The building will contain an underground garage for approximately 67 parking spaces, central air conditioning and water purification systems, and it will be fitted with a centralised security system. The estimated construction cost is US\$13.4 million. We are financing construction from pre-sale proceeds and down payments, as well as draw-downs from a committed US\$6.5 million credit facility from Joint Stock Post Pension Bank “Aval”, expiring in April 2008. The credit facility is secured by a mortgage on the property.

Capitoliy is being built on a 0.2 hectare site that is leased by LLC “Remax Group”, an unrelated entity, from the Kyiv City Council under a 30 month lease, expiring in October 2006. The annual rental payment for the site is UAH 30,420 (US\$6,100). Our subsidiary LLC “Garant-Invest” is developing the Capitoliy site under an investment agreement with LLC “Remax Group”. Under this agreement, once construction is complete, LLC “Garant-Invest” will obtain full title to the building and LLC “Remax Group” was paid UAH 1,591,170 (US\$315,083). However our intention is to transfer ownership of this building to Kyiv City State Administration for maintenance and servicing following the sale of all of the apartment units. As with all of our other properties leased from the Kyiv City Council, we are obligated to contribute residential space to the City equivalent to a percentage of the total constructed floor plate. This contributed space is generally not part of the new construction. We usually seek to negotiate cash payments in lieu of delivery of the required space.

We are pre-selling the apartment units as “shell-and-core” at prices ranging between US\$2,500 and US\$7,200 per square metre. As of 1 November, 2005 we pre-sold 28 apartments and two offices in the building.

***Parus at Melnykova Street (Under Construction)***

We are currently constructing a residential apartment building located on Melnykova Street in a residential area just outside the Kyiv business and historic centre, with completion expected by the end of 2007. This building is also near our Kvadrat Lukaynivka shopping centre. Because of its location, residents of Parus will have access to a large variety of public transportation, including the Kyiv metro. We hold a 74 per cent. beneficial interest in LLC “Dim i K”, the special purpose entity that is developing Parus, with Gestfair Limited holding the remaining interest.

Parus is designed to be a 24-story building, with 23 stories above ground. It will contain approximately 186 apartment units and a total liveable area of approximately 23,200 square metres. The size of apartment units will range between 53 and 200 square metres. Parus will also contain several units which can be used as offices. The building will have an underground garage with 176 parking spaces, a central air conditioning and a water purification system and a centralised security system. The estimated construction cost of Parus is US\$31 million.

Parus is being built on a site of 0.4 hectares that is leased by our subsidiary LLC “Dim i K” from Kyiv City Council under a three-year lease, expiring on 22 July 2007. The annual rental payment is UAH 24,284 (US\$4,900). The lease agreement contains a provision which grants us a pre-emptive right to extend the term of the lease and to purchase the land plot at its agreed market value; however, upon the sale of all of the units, we intend to transfer the building to the Kyiv City State Administration for management and servicing.

We are pre-selling the Parus apartment units as “shell-and-core” at prices ranging between US\$1,460 and US\$1,600 per square metre. As of 1 November, 2005 we pre-sold 15 apartments in the building.

The apartments to be constructed on the eighth floor of the building have been mortgaged to the Joint Stock Commercial Bank of Social Development “Ukrsotsbank” to secure a UAH 4,000,000 (US\$792,079) loan maturing on 27 September 2006. This construction loan was made to LLC “Zhytlo XXI Stolittyn” and LLC “Dim i K” acted as guarantor.

***Other Residential Real Estate Projects Under Development***

In addition to the projects described above, we hold land lease rights or project approvals from the Kyiv City Council to eight land plots in the centre of Kyiv and adjacent areas. We are currently preparing architectural plans and designs, and other documentation necessary for commencement of construction on these sites.

Information regarding our other residential projects under development is set forth below.

	<b>Expected Completion</b>	<b>Total floorplate</b>	<b>Saleable area<sup>(1)</sup></b>	<b>Total cost per square metre</b>
Klovsky Uzviz .....	2007	24,990	18,000	912
Lypska Street .....	2007	5,100	3,600	950
Yaroslaviv Val .....	2008	29,500	22,125	1,004
Posolsky Dvir .....	2008	25,000	17,500	1,200
Verkhnia Street .....	2008	40,000	28,000	821
Tolstoho Street .....	2008	40,000	28,000	930
Kyianivsky Provulok .....	2009	70,000	52,500	1,000
Voznesensky Yar .....	2009	100,000	75,000	890

(1) Saleable area includes the apartment units and parking space.

***Klovsky Uzviz***

We intend to develop a 1,848 square metre site located within a residential district containing primarily middle and upper-class residents. This development is expected to comprise a 15-story residential development with approximately 24,990 square metres of gross area, with parking. The estimated construction cost is US\$30 million with completion expected by the end of 2007. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop this site.

Our subsidiary LLC “Elitne Zhytlo” holds a lease from the Kyiv City Council for the underlying land, which expires in July 2006; however, we will seek an extension of this date. The annual rental payment is UAH 20,395 (US\$4,100). The lease agreement contains provisions which grant us a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value.

Upon completion and sale of all of the apartment units, we plan to transfer all rights relating to the ownership and management of the building to the Kyiv City State Administration.

#### ***Lypska Street***

We intend to develop this 1,715 square metre site, located within a centrally located and highly desirable residential district, into a residential building comprising approximately 5,100 square metres of gross area with parking facilities. The estimated construction cost is US\$4.8 million with completion expected in 2007.

Our subsidiary LLC “Elitne Zhytlo” holds the land lease with the Kyiv City Council for the site for a term of two years and expiring in July 2006; however, we will seek an extension of this date. The annual rental payment is UAH 22,163 (US\$4,400). The lease agreement contains provisions which grant us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop this site.

Upon completion and sale of all apartment units, we expect to transfer all rights relating to the ownership and management of the property to the Kyiv City State Administration.

#### ***Yaroslaviv Val***

We intend to develop this 0.5 hectare site located within a highly desirable central residential district into a residential development of approximately 29,500 square metres of gross area together with parking facilities. The estimated construction cost is US\$29.6 million with completion expected in 2008. We hold a 37 per cent. beneficial interest in the special purpose entity which will develop this site, with LLC “Invest-Finance” and Gestfair Limited holding the remaining interests.

The land is held by our subsidiary LLC “Evrohradobud” under a ten-year lease with the Kyiv City Council, expiring in December 2014. The annual rental payment is UAH 50,095 (US\$9,919) prior to completion of construction. After completion of construction, the annual rent will be UAH 10,019 (US\$1,983) with respect to the residential portions of the building and UAH 66,792 (US\$13,226) applicable to the non-residential portions. The lease agreement contains provisions which grant us a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value. Under the land lease agreement we are required to complete construction by 23 December 2007; however, we will seek an extension of this date.

Upon the sale of all apartment units, all rights relating to the ownership and management of the property will be transferred to the Kyiv City State Administration.

#### ***Posolsky Dvir at Lavrsky Provulok***

We intend to develop high-end, fully furnished and serviced residential apartments near this historic monastery complex known as Lavra (Monastery of the Caves), which is a UNESCO World Heritage Site. The project is planned to comprise 25,000 square metres of gross area with ample parking facilities for the residents. The estimated construction cost is US\$30 million with completion expected in 2008. However, since the property is adjacent to an historic monastery, archaeological investigations may lengthen the development period. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop this project.

In November 2004 our subsidiary LLC “Elite Service” leased the underlying 8,325 square metres of land from the Kyiv City Council for a period of 25 years. The annual rental payment is UAH 76,112 (US\$15,200). The lease agreement contains a provision which grants us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot. Under the lease agreement we are required to complete construction by November 2007, however, we are reasonably confident that an extension will be granted in view of the archaeological conditions surrounding the site. Another condition of the lease requires that we contribute 1,000 square metres of the project towards a cultural centre.

In view of the unique characteristics of this project, we are exploring possible strategic partnerships in order to develop this complex and reduce overall risks.

### ***Verkhnia Street***

We intend to develop this 3,000 square metre site into a residential development of approximately 40,000 square metres of gross area and parking facilities. The estimated construction cost is approximately US\$33 million with completion expected by the end of 2008.

On 25 September 2003, the Kyiv City Council approved the development of the land by our subsidiary LLC “Rielter Elite”; however a lease has not yet been executed. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop this site.

Once all the apartment units are sold, we intend to transfer all rights relating to the ownership and management of the property to the Kyiv City State Administration.

### ***Tolstoho***

We plan to develop this approximately 3,000 square metre site into a residential building with approximately 40,000 square metres of gross area. The estimated construction cost for this project is US\$37 million.

According to a decision of the Kyiv City Council of 23 December 2004, two non-residential buildings located on the Tolstoho site, are to be transferred to our subsidiary LLC “Architecture Lyuks”. As a condition of the Council decision we are required to acquire and reconstruct a building at 4 Richna Street and to relocate the existing tenants of the Tolstoho buildings to this new building. We are currently discussing the acquisition of the Richna Street site with the City. Under these arrangements, we will be required to make a balancing payment to the extent that the market value of the buildings on the Tolstoho Street property exceeds the value of the compensatory premises. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop the site.

Upon completion and sale of all apartment units, we expect to transfer all rights relating to the ownership and management of the property to the Kyiv City State Administration.

### ***Kyianivsky Provulok***

We intend to develop this approximately 55,800 square metre site, located near historic and cultural landmarks and within a sought-after central residential district into a residential development with approximately 70,000 square metres of gross area and parking facilities. Estimated construction cost for this project is US\$70 million and completion is scheduled for the end of 2009. However, because the property is adjacent to archaeological remnants of an historic church, archaeological investigations may lengthen the development period, in which case we would seek an extension to the development period specified in the lease agreement relating to the property. We hold a 44 per cent. beneficial interest in the special purpose entity that will develop the site.

Our subsidiary LLC “Megagrad” holds a lease with the Kyiv City Council for the site. The lease term is ten years, expiring in November 2014, and with annual rental payments of UAH 794,131 (US\$158,800). The lease agreement contains a provision which grants us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

Upon completion of this project and sale of all apartment units, we expect to transfer all rights relating to the ownership and management of the property to the Kyiv City State Administration.

### ***Voznesensky Yar***

We intend to develop this land plot totalling 34,000 square metres into a multi-level residential complex totalling approximately 100,000 square metres. The estimated total construction cost is US\$89 million. Completion of this residential project is planned for 2009, at which time we will consider transferring all rights relating to the ownership and management of the property to the Kyiv City State Administration. We hold a 74 per cent. beneficial interest in the special purpose entity that will develop the site.

### ***Residential Projects in the Pipeline***

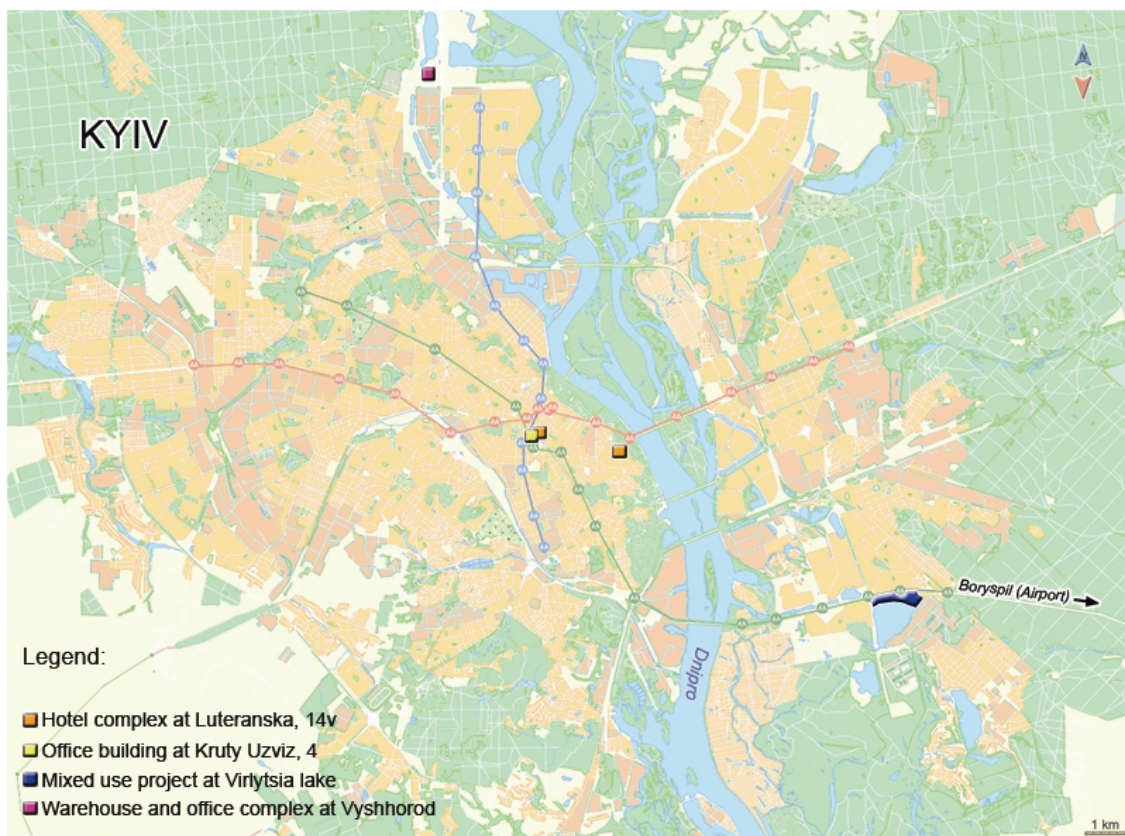
We are currently working on another five residential projects in Kyiv. All of these projects are located in central Kyiv. The projects have already been approved by the Shevchenkivsky District Council, and they are now being reviewed by the relevant committees of the Kyiv City Council. We expect that in 2006 the Kyiv City Council will approve these projects and, following such approval, we will negotiate land lease agreements with the Kyiv City Council.



## Commercial Real Estate

In 2004, we created a new business division focused on developing various additional commercial real estate projects such as hotels, office centres, warehouses and logistic centres. Our strategy in this business is to identify financial and strategic partners to jointly develop these commercial projects in order to reduce project and financing risks, as well as to facilitate marketing and lease-up of the properties when completed. Once these projects are completed and income streams are stabilised, it will be our intention to sell these properties to international institutional buyers.

The following map of Kyiv shows the location of these planned commercial real estate developments.



### *Vyshhorod*

We intend to develop a 20 hectare site near Vyshhorod on Kyiv's ring road into a warehouse and logistics complex of between 20,000 to 80,000 square metres, including offices. The estimated construction cost for the three phases planned to bring this project to completion is US\$34 million. The first phase of the project is expected to be completed in 2006. We hold a 99 per cent. beneficial interest in the special purpose entity that will develop the site.

According to the State Act on Permanent Land dated December 2000, our subsidiary LLC "Shvydko Invest" was granted a right of permanent use of this property. However, since the site is currently designated for agricultural use, we are in the process of applying to the Kyiv Oblast authorities for a change of use of the property.

### *Kruty Uzviz*

We are planning to develop a Class A office centre on our site on Kruty Uzviz beside Kyiv's landmark Bessarabka Market. We expect that this office building will have a total floor area of approximately 15,000 square metres plus parking for approximately 140 automobiles. Because Kyiv has a shortage of Class A office space, we believe that this prime location makes it well suited to develop a first class office building.

The estimated construction cost for this project is US\$14 million. We hold a 74 per cent. beneficial interest in a special purpose entity that will develop the site. We are working closely with a potential partner but have not yet finalised a joint venture arrangement. Our objective is to engage a partner with experience in developing prime office space and who can help secure financing and participate in the marketing and leasing of offices.

Our subsidiary LLC “Elitne Zhytlo” is in the process of finalising the land lease relating to the underlying land from the Kyiv City Council.

### ***Virlytsia at Prospekt Bazhana***

Virlytsia is on the left bank of Kyiv near the Kharkivska metro station. This project will be our largest undertaking, comprising a mixed-use development consisting of our Kvadrat shopping centre, a business office park, a DIY store and possibly other retail facilities such as automobile showrooms and restaurants. The total area to be developed will amount to approximately 187,000 square metres, including the 60,000 square metres planned for Kvadrat Virlytsia. We plan to phase development of this site to reduce risks and minimise financing requirements, with the first phase likely to be completed in 2007 and comprising a business office park with subsidiary amenities such as restaurants and parking facilities. We estimate that the total commercial area of approximately 127,000 square metres plus surface parking for approximately 2,000 cars will cost approximately US\$110 million. We are working closely with an experienced developer on this project with extensive expertise in similar projects in Central and Eastern Europe. However, we have not finalised any formal arrangement pending agreement on scope and phasing of this project, as well as resolution of joint venture arrangements. We hold 100 per cent. of the special purpose entity that will develop this site.

We have leased the underlying 25.9 hectares of land from the Kyiv City Council for a period of five years ending in November 2010. The annual rental payment is UAH 330,700 (US\$65,490) during construction period and UAH 754,966 (US\$149,498) after completion of construction. The lease agreement contains provisions which grant us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

### ***Luteranska Street***

We are currently planning to develop a 350-room, four star hotel complex on Luteranska Street in the centre of Kyiv. The hotel is expected to comprise approximately 25,000 square metres of gross area plus parking. The estimated cost to complete this project is US\$48.5 million, with completion aimed towards early 2008. We hold a 51 per cent. beneficial interest in the special purpose entity which will develop the site. Our intention is to secure a joint venture partner who will assist in identifying a hotel operator as well as to help secure project financing. As the land is currently designated for residential use, we have applied to the Kyiv City Council for a change in this designation to permit development of the proposed hotel.

The land site covers 3,592 square metres and it is held by our subsidiary LLC “Prominvestgroup” under a three-year lease agreement from the Kyiv City Council, expiring in June 2007. The annual rental payment for the land lease is UAH 32,188 (US\$6,400), and the lease agreement contains provisions which grant us a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

### ***Commercial Projects in the Pipeline***

We are currently working on additional commercial projects. For example, we are working on a project for the development of a mixed-use complex, which will contain a hotel, office areas and retail space. We have recently obtained a positive decision from the Kyiv City Council, which allocated to us the 0.2 hectare land plot at 3 Melnykova Street in Kyiv. We expect to execute the land lease agreement with the Kyiv City Council by the end of 2005. The approved land lease term is ten years.

We are also a member of a consortium that recently won an investment tender to develop property along the Dnipro River. The project is currently at the concept development state.

### **Competition**

Competition in the Ukrainian real estate development and property management market is fragmented among local developers, with no national or international competitors in the market. Comprehensive market information is unavailable as most development companies are privately owned. Below is additional information concerning our competitive environment and competitors.

### ***Shopping Centres***

In the retail shopping facilities segment we compete with local developers, including Lex Holding Company (“LHC”), the developer of a retail shopping centre operating under the brand name

“Karavan”. LHC currently operates one retail shopping centre in Kyiv with a total area of 50,000 square metres. Delight Ltd. operates the underground Globus retail centre with an aggregate area of 38,000 square metres located in the centre of Kyiv underneath Maidan Nezalezhnosti. The Globus centre is popular due to its central location. However, the Globus centre primarily targets upper middle class consumers and, therefore, does not directly compete with our Kvadrats. Metrograd Group operates an underground retail shopping centre under the brand name “Metrograd” with a total area of 20,000 square metres in the centre of Kyiv at Tolstoy Square. Metrograd shopping centres attract a mix of customers similar to the Kvadrat target group.

Our Kvadrat Borschahivka competes with Rhythm, 26,000 square metre local shopping centre complex.

Our Kvadrat Lukyanivka retail centre competes with the Promenade, a 40,000 square metre shopping centre. However, we believe that Kvadrat Lukyanivka enjoys a better location and is more accessible by public and private transport.

### ***Residential Real Estate***

Competition in the Kyiv’s high-end real estate sector is limited, although it increases in the medium and lower priced sectors. Our main competitors in the high-end residential market are HCM Property Management, TMM, “Granit” company, “Poznyakizhilstroy”, “Kyivmiskbud” and “Zhytlo — Invest.”

Competition within the residential market is based primarily on location, amenities and, to a lesser extent, price. We believe that we have a competitive advantage based on our attractive locations and high quality properties.

### ***Commercial Real Estate***

We believe that Kyiv currently lacks sufficient high-quality office space, hotels, warehouses and logistic centres. There are very few competitors in these segments, although we expect foreign developers will appear in the near term in joint partnerships with local developers.

### ***Ground Leases***

The Kyiv City Council allocates property for development upon application from interested developers. Once a developer is approved, the Kyiv City Council enters into a land lease with that developer. The land underlying our properties is leased from the Kyiv City Council for terms ranging from two to 25 years. Under these leases, rents are based on a percentage of the site value and are adjusted annually to reflect new valuations of the properties. In addition, pursuant to local regulations in Kyiv, a developer of a site must transfer to the Kyiv City State Administration up to 10 per cent. of the developed floorplate upon completion, which the City may either retain for its use or sell to fund infrastructure improvements. In lieu of contributing space to the City, we generally negotiate an equivalent cash payment.

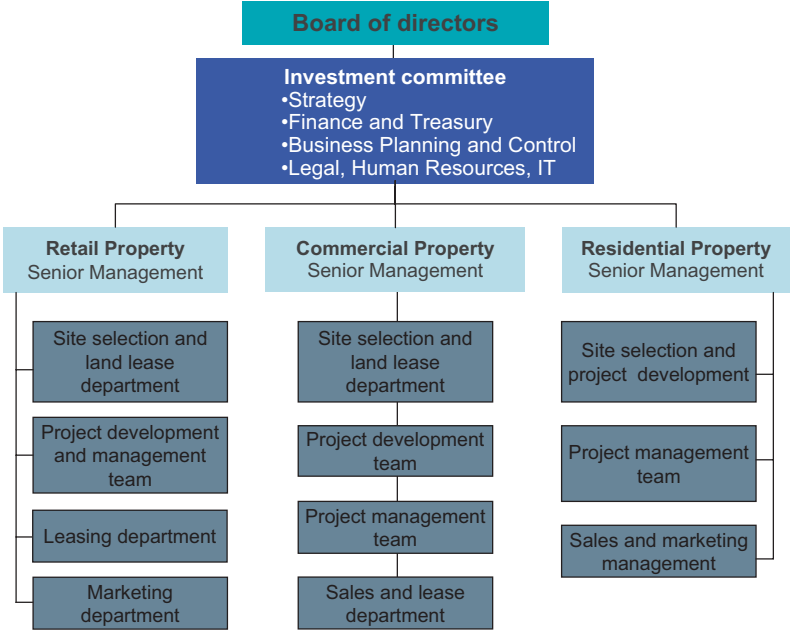
Under Ukrainian law, land leases contain pre-emptive rights allowing the lessee to extend the term of the lease at expiration, provided that the lessee has complied with the terms of the lease and the lessor desires to continue leasing the property. In addition, in the event that the lessor seeks to sell the leased property, the lessee has a right of first refusal under Ukrainian law to purchase the property at the market value of the property.

Once construction is completed on a particular land parcel, the developer has rights in the completed building that are separate from the rights in the underlying land. The owner of the building may apply for a long-term lease of the underlying land, which is generally freely granted. In the event that the underlying land lease is terminated by the lessor, the building owner will in practice have a perpetual right to occupy the land underlying the building.

Because land leases are effectively non-transferable in Kyiv, we hold each lease through a special purpose entity, which is intended to allow us to transfer a property by transferring the participatory interests of the relevant entity. Some of our special purpose entities hold leases for multiple properties. As a result, in order to transfer one of the properties held by such entities, we would have to transfer all of the properties held by such entities.

**Our Organisational Structure**

Our current operating organisational structure is shown below.



**Significant Policies and Procedures**

The primary goal of our property investment and development process is to maximise shareholder returns. As our financial and managerial resources are limited, we focus on selected business segments in which we believe we can capitalise on our competitive advantages. Our main business segments — shopping centres, residential complexes and commercial projects — are managed by relatively autonomous divisions. We believe this organisational structure allows these businesses to better respond to changing market conditions and to adjust their growth strategies as new opportunities arise. These business segments are supervised by our Investment Committee, which sets corporate policies and strategy and establishes objectives and operating parameters for each business segment.

Our development and management processes are described below in more detail:

- Project definition.** The project definition phase consists of idea generation, execution of these ideas via careful search and selection of land plots, market research and analysis and feasibility study; thereafter, the business segment director presents the project to the Investment Committee for approval. At this stage, we also make a preliminary application to the Kyiv City Council for permission to initiate the necessary legal arrangements to acquire the rights to the chosen site for the intended project. This process may entail amendments to the project based on feedback from the Kyiv City Council and other municipal authorities. After receipt of preliminary approval from the Kyiv City Council we then prepare legal documentation and apply for other permits.
- Pre-development investigation.** Our pre-development investigation process consists of a comprehensive financial and legal due diligence review, including a technical survey of the project site and a legal investigation of property/land ownership rights and acquisition history. Market research is usually undertaken with the assistance of independent consultants. A detailed financial plan is also prepared. After completion of the pre-development investigation, the project is presented to the Investment Committee for its approval. The Investment Committee considers the project in light of our strategy, as well as the project-specific risks and returns and availability of financial and management resources. Following Investment Committee approval, we appoint a dedicated project team, responsible for the project, and a project manager who is accountable to the Director of the business segment.
- Project Development.** The first step in the project development phase is the receipt of initial construction approvals. Architects and engineers are then retained to develop a more detailed project design, and a contractor and a technical supervisor are selected based on a competitive tender. In addition to supervising the project timetable, the technical supervisor is responsible for

cost containment. Any outsourced contract with a value of more than US\$50,000 must be approved by our Board of Directors. At this phase, we also arrange and secure project financing. During the construction phase, we begin to pre-sell apartments in residential projects and pre-lease space in retail and commercial projects. Revenues from these activities are applied to finance construction.

- **Project management.** Management of each individual project is the responsibility of the appointed project manager. Technical supervision of the project is primarily the responsibility of on-site engineers, who supervise and approve construction progress and document construction expenditures, and site supervisors, who control the usage of construction materials and ensure compliance with applicable regulations and permits.
- **Sales or Property management.** The Investment Committee, based on the recommendation of the Business Director, determines whether to sell a completed project or to retain management for investment purposes. With respect to residential buildings, ownership is transferred to the Kyiv City State Administration, although we retain ownership of any unsold apartments. In the future, we may focus more on property management by retaining the management of one or more of our residential buildings, which we believe would allow us to generate additional revenues and establish a reputation as property managers.

To manage the operating risks inherent in our various businesses, we have established decision making and control procedures, which include: the preparation of operating and capital expenditure budgets, bidding procedures for the selection of qualified contractors, cash controls and policies and periodic financial management reporting. Our Investment Committee is responsible for making all investment decisions and our Investment Department monitors and controls each business division. In addition, our Budget Committee is responsible for supervising and controlling capital and operating budgets.

In connection with construction contracts, we mitigate risks by requiring cash deposits (usually in the range of two per cent. to five per cent. of the contract value) and completion and performance guarantees issued by reputable banks on behalf of contractors. In property purchase and sale transactions, we generally obtain financial guarantees from reputable banks for the performance of the counterparty's obligations.

To the extent possible, we seek to minimise currency exchange risks by using the U.S. dollar as the notional currency for most of our contracts with service providers and tenants, as well as in transactions involving property purchases and sales and debt instruments.

### **Insurance**

We seek to maintain insurance policies which our Directors consider to be appropriate in accordance with industry practice in Ukraine. Currently, all our Kvadrat shopping centres are insured against property loss and damage. Our construction contracts oblige our contractors to insure buildings under construction. We also maintain business interruption insurance for our Kvadrat shopping centres. Our land plots, both leased and owned, are not insured. As we develop these new sites and our property management business evolves, we anticipate the need for more sophisticated insurance policies and cover.

### **Environmental Issues**

The use and development of land in Ukraine is subject to various laws and regulations intended to protect the environment. The Law "*On the Protection of the Natural Environment*", dated 25 June 1991 (the "Environmental Protection Law") constitutes the principal environmental legislation in Ukraine, although additional environmental protection laws are included in Ukraine's Water Code, Land Code, Forest Code, Air Code, Code on Administrative Violations, Criminal Code and various other legislative acts.

The Environmental Protection Law requires review by an ecological expert of any activity which may adversely affect the natural environment, including in connection with all construction and renovation projects. It also mandates environmental payments in connection with the special usage of natural resources, such as mining activities, as well as activities that cause the contamination or deterioration of natural resources. Violation of the Environmental Protection Law may result in disciplinary, administrative, civil or criminal sanctions.

Furthermore, as required by Ukrainian law, each of our projects is subject to the approval of the local department for ecology and natural resources, as well as the complex state examination of the construction project, which includes, amongst other things, ecological, sanitary and fire safety inspections.

In order to comply with applicable environmental laws and regulations, we perform general environmental analyses with respect to our properties to determine whether there has been any activity carried out at the property that may have resulted in contamination. We are not aware of any material non-compliance with the environmental laws or regulations currently applicable to us, and we are not currently subject to any material claim for liability with respect to contamination at any location.

### ***Licences***

Our subsidiary, CJSC “Investment Company XXI Century”, holds a licence from the State Commission on Securities and the Stock Market to engage in professional activity in securities markets with respect to the management of mutual funds. We require this licence in our residential business in connection with the asset management of bonds issued by development companies that are exchangeable for apartment units, as described in “Residential Properties” above. This licence expires on 24 December 2006, at which time we will seek to obtain a new licence.

### ***Construction Permits***

Under Ukrainian law, we are required to obtain a construction permit from the local architectural control authorities in connection with construction at each of our developments. These licences specify the permitted scope of construction. Currently, we hold all construction permits for the Capitoliy and Parus residential projects.

In order to obtain construction permits for each project, we must receive the following major approvals:

- preliminary architectural and planning assignment from the local department for architecture and construction;
- technical conditions and specifications for construction from various local authorities and utility companies;
- final approval of the construction project by the local department for architecture and construction; and
- complex state examination of the design and technical documentation for the construction project.

See “Legislation of Ukraine Related to Land and Real Property”.

### ***Intellectual Property***

We are the registered owner of the following trade marks in Ukraine: “Zhytlo XXI Stolittya” and “Triumfalnaya Arka”, and registration is pending for “Kapitoliy”. The “Kvadrat” trademark is registered in the name of Mr Partskhaladze, who has granted us the right to use this trademark for a nominal amount. We expect that this trademark will be transferred to us in the future. Our business does not depend on any other material intellectual property.

### ***Employees***

We employed 159 people as of 30 June 2005. The number of our employees at 31 December 2003 and 2004 and at 30 June 2005 is set forth in the table below:

	<b>31 December<sup>(1)</sup></b>		<b>30 June</b>
	<b>2003</b>	<b>2004</b>	<b>2005<sup>(1)</sup></b>
Head Office Management. . . . .	3	13	19
Retail . . . . .	76	86	105
Residential. . . . .	23	25	32
Commercial. . . . .	—	3	3
Total. . . . .	<u>102</u>	<u>127</u>	<u>159</u>

(1) Subsequent to 30 June 2005, our business was reorganised and contributed to the Company. Accordingly, the figures reflect only the businesses operated by the Company and do not reflect employees of divested non-core businesses.

Employees receive pension benefits from the state in accordance with the laws and regulations of Ukraine. As of 30 June 2005, we were not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement benefits to current or former employees.

Based on our belief that attracting and retaining qualified employees is critical to our success, we seek to offer attractive remuneration packages, including success-based payments. We are currently considering the creation of a private pension fund for employees.

### **Legal Issues**

We are and, from time to time, may be a party to various legal proceedings arising in the ordinary course of business. Except as described below, we believe that none of these actions will have a material adverse effect on our financial condition or results of operations.

We are involved in a dispute with an existing shareholder and a former shareholder in LLC “Mezokred Holding”, a joint venture which holds lease rights to a land plot at the intersection of Laiosha Havro Street and Moskovsky Avenue in Kyiv. This property is not included in the DTZ Report.

The dispute is related to the ownership of 51 per cent. of the interests in Mesokred Holding. Until 23 August 2003, two shareholders each held 50 per cent. of the capital of that entity. However, the shareholders entered into agreements with our subsidiary LLC “Megapolis XXI Century” to sell a 50 per cent. and 30 per cent. interest, respectively, in Mezokred Holding, and the sale and purchase agreements were concluded in a notarial form. Amendments to the charter of Mezokred Holding reflecting these sales were subsequently registered with the Darnitsa District State Administration on 5 September 2003.

Subsequently, one of the sellers brought a claim challenging the validity of Megapolis XXI Century’s title to 80 per cent. of the charter capital of Mezokred Holding on the basis that the purchases of this stake were allegedly invalid. Based on this claim, the Komsomolsky District Court of the City of Kherson imposed provisional measures, which included a ban on the calling of Participants’ Assembly meetings.

We successfully appealed to the Appellate Court of the Kherson Oblast against the decision of the Komsomolsky District Court of the City of Kherson. In addition, we filed an application to the Prosecutor’s Office of the Shevchenkivsky District in the City of Kyiv requesting an investigation into whether the sellers had engaged in a fraudulent conspiracy relating to their sales of Mezokred Holding shares. Subsequently, the sellers withdrew their claims and the investigation was closed.

In reviewing the charter of Mezokred Holding, held by the Darnitsa District State Administration in Kyiv, we discovered that Megapolis XXI Century is no longer registered as a participant. On 13 July 2005, we filed an appeal to the Appellate Court of the Lviv Oblast to be reinstated as a registered participant. This matter is still pending as the appeal has not yet been considered. Although we believe that we have a strong case and will succeed in having Megapolis XXI Century registered as a participant in Mezokred Holding, we cannot give any assurance in this regard.

### **Related Party Transactions**

Members of our Group have entered into transactions with related parties. All of such dealings are on terms that we believe are competitive and arms-length. Specifically:

- We have made sales, primarily related to the provision of consulting services, to LLC “Kvadrat Druzhby Narodov”, which was an associated entity prior to our reorganisation, operating an underground Kvadrat. We rent our corporate office space from LLC “Dinamo Lux”.
- We have also entered into transactions with Lev Partskhaladze, our Chairman. The Kvadrat trademark is registered in the name of Mr Partskhaladze who has licensed the trademark to our business for a nominal fee; however, we expect that this trademark will be transferred to us in the future. In addition, in connection with our recent reorganisation Mr Partskhaladze contributed shares in various subsidiaries to the Company in exchange for Shares.
- The Company has provided financial assistance to the following companies associated with our Group: LLC “Golden Prince”, LLC “Kvadrat Lyadskie Vorota”, LLC “Kvadrat Galereya Evropeyskaya Plosha”, and LLC “Mezokred Holding” in the form of interest-free loans. The associated entities are all shell companies and the loans were made for the purpose of meeting expenses related to the maintenance of these corporate entities.

Additional information concerning these transactions is set forth in note 28 to the Company’s financial statements in Part VIII.

In addition, on 30 November 2005, as part of the reorganization to divest non-core operations prior to our Admission to AIM, we completed the sale of our 51 per cent. interest in CJSC “Shvydko-Ukraina”, which

operates the Shvydko fast food chain. The interest was sold to LLC XXI Century Brokerage, an affiliate of Lev Partskhaladze, for total consideration of US\$1.6 million.

### **Dividend Policy**

We do not expect to declare a dividend in the short to medium term. The Directors believe that we should seek to generate capital growth through the reinvestment of earnings. The Directors may recommend distributions of dividends at some future date, depending upon the generation of sustainable profits and when it becomes commercially prudent to do so.

### **Use of Proceeds**

The net proceeds of the Placing are expected to be approximately US\$115,211,200, after commissions and expenses payable by us of approximately US\$5,428,800. We intend to use the proceeds to finance construction costs and to acquire rights to additional properties for development. We also intend to use approximately US\$13.5 million to acquire the interests of third party investors in our subsidiaries. The remainder of the proceeds will be used for working capital.

### **Details of the Placing**

ING, as agent for the Company, has agreed to procure subscribers for the Placing Shares or, failing which, to subscribe itself as principal for such Shares at the Placing Price, on and subject to the terms of the Underwriting Agreement. The Placing Shares will represent 32.6 per cent. of the Issued Share Capital following the offering. The Placing Shares are being placed by ING with institutional and other sophisticated investors and the Placing is conditional, inter alia, on Admission. Up to 11,600,000 of such Shares will be offered and placed in the form of Global Depositary Receipts, each representing one Share. The Global Depositary Receipts will be issued pursuant to a Deposit Agreement between the Company and The Bank of New York, as Depositary. The Global Depositary Receipts will not be admitted to AIM nor will they be listed on any other stock exchange. The Global Depositary Receipts are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters. Further details of the Global Depositary Receipts are set forth in Part X of this document.

Fees and commissions are payable to ING by the Company in respect of the Placing Shares. Further details of the Underwriting Agreement are set out in Part X of this document.

The Company resolved to issue the Placing Shares on 12 December 2005. The Placing Shares will be issued credited as fully paid and will, when issued, rank pari passu with the existing Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid. It is expected that the proceeds of the Placing will be received by the Company on 16 December 2005.

Following the Placing, the Directors either individually or through holding companies, together with affiliated parties, will hold 24,000,000 Shares, representing approximately 67.4 per cent. of the Issued Share Capital following the offering.

### **Over-allotment Arrangements**

In connection with the Placing, ING, as stabilising manager, may (but will be under no obligation to) over-allot or effect other transactions with a view to supporting the market price of the Shares or Global Depositary Receipts or any options, warrants or rights with respect to, or interests in, the Shares or Global Depositary Receipts or other securities of the Company, in each case at a level higher than that which might otherwise prevail in the open market, for a limited time after the Placing Price is announced. Such transactions, if commenced, may be discontinued at any time and may only be undertaken during the period commencing on the date of announcement of the Placing Price (being the date of this document) and ending on the thirtieth day after the date of announcement of the Placing Price. Save as required by law or regulation, ING does not intend to disclose the extent of any over-allotments and/or stabilisation transactions conducted in relation to the Placing.

ING, as stabilising manager, has entered into Over-allotment Arrangements pursuant to the Underwriting Agreement with the Company pursuant to which ING may subscribe or procure subscribers for up to 1,740,000 Over-allotment Shares to be issued by the Company, at the Placing Price, for the purposes of allowing ING to meet over-allocations in connection with the Placing and to cover short positions resulting from stabilisation transactions. Any decision to subscribe or procure subscribers for any Over-allotment Shares is expected to be taken by no later than 12 January 2006.



Any Over-allotment Shares made available pursuant to the Over-allotment Arrangements will rank *pari passu* with the Shares in all respects and shall be identical to all other Shares. ING and Mr Partskhaladze have also entered into a stock lending agreement (the “Stock Lending Agreement”) in connection with the Over-allotment Arrangements. Further details of this agreement are set out in Section 8 of Part X of this document.

### **Lock-in and orderly trading arrangements**

At Admission, related parties and applicable employees (all as defined in the AIM Rules), being Lev Partskhaladze, Andriy Myrhorodsky, Mykola Yerzhakhovskyy and Taras Kutovyy, will own 24,000,000 Shares representing all of the pre-admission share capital. Each of these parties has undertaken pursuant to lock-in agreements entered into between each of them and the Company and ING that, save in certain limited circumstances, it will not sell or dispose of any of its respective interests in Shares at any time for a period of 365 days immediately following the Admission.

### **Admission to AIM and Dealings**

The ISIN number for the Company’s Shares is CY0009731015. Application has been made for the Shares to be admitted to trading on AIM. On 16 December 2005, the opening of the subscription lists shall take place and dealings in Shares, as represented by Depository Interests, are expected to commence.

### **Dealing Arrangements and CREST**

CREST is a computerised paperless settlements system, which allows securities to be transferred via electronic means, without the need for a written instrument of transfer.

The Company’s Shares cannot be held or traded in the CREST system. To enable investors to settle their dealings in securities through CREST, a depository (the “CREST Depository”) has been appointed to hold the relevant foreign securities and issue dematerialised depository interests representing the underlying securities (“Depository Interests”). The Company has appointed Computershare Investor Services PLC to act as the CREST Depository.

The CREST Depository will hold the Shares for the Depository Interest holders and this relationship is documented in a deed poll executed by the Depository. This deed poll provides that the Depository will pass on all rights and entitlements it receives, including the right to attend and vote at general meetings of the Company, to the relevant holder of Depository Interests. The CREST Depository may not charge Depository Interest holders for its services without first consulting the Depository Interest holders.

The deed poll contains certain indemnities by a holder of Depository Interests in favour of the Depository and certain limitations of liability in favour of the CREST Depository.

The Depository Interests will be independent securities under English law and will be held on a register maintained by the CREST Depository. The Depository Interests will have the same security code as the underlying Shares which they represent and will not require a separate admission to AIM.

Investors wishing to settle their dealings in securities through CREST can have their Shares issued to the CREST Depository, which will then issue Depository Interests to those investors, representing the transferred Shares. The investors will not hold a Share certificate evidencing the underlying Shares. Each Depository Interest will be treated as one Share for the purposes of, for example, determining eligibility for dividend payments. Any payments received by the CREST Depository, as holder of the Shares, will, pursuant to the deed poll, be passed on to each Depository Interest holder noted on the Depository Interest register as the beneficial owner of the relevant Shares.

Participation in CREST is voluntary and investors who wish to hold Share certificates may do so. They will not, however, then be able to settle their dealings in Shares through CREST and will have their holding recorded on the Company’s Share register.

Application has been made by the CREST Depository for Depository Interests, which represent the underlying Shares, to be admitted to CREST on Admission.

The holder of Depository Interests is entitled to a copy of the Deed on payment to the CREST Depository of a nominal fee.

## **PART II**

### **RISK FACTORS**

*An investment in the Shares involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy Shares. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of the Shares could decline and you could lose all or part of your investment.*

#### **Risks Relating to Our Business and Investments in Real Estate**

##### ***General considerations relating to property investment***

Several factors may affect the economic performance and value of our properties, including:

- changes in the national, regional and local economic climate;
- local conditions such as an oversupply of similar properties or a reduction in demand for the properties;
- the attractiveness of the property to tenants or residential purchasers;
- the ability to collect rent from tenants;
- changes in availability and costs of financing, which may affect the sale or refinancing of properties;
- governmental actions against properties;
- risks associated with construction activity at the properties, including delays, the imposition of liens and defects in workmanship;
- covenants, conditions, restrictions and easements relating to the properties;
- governmental regulations, including financing, environmental usage and tax laws, regulations and insurance;
- our ability to pay for adequate maintenance, insurance and other operating costs, including taxes, which could increase over time; and
- acts of nature, such as earthquakes and floods, that may damage the properties.

Any negative change in one or more of these factors listed above could adversely affect our business, results of operations and financial condition. The profitability of an investment in our Shares will depend on factors such as these. You should be aware that the past performance of Ukrainian real estate investments might not be indicative of future results of our operations.

##### ***Construction and development risks***

As part of our business we develop real property, which subjects us to the general risks associated with construction and development projects. Our development and construction activities may involve the following risks:

- we may be unable to proceed with the development of properties because we cannot obtain financing upon favourable terms;
- we may incur construction costs for a development project which exceed our original estimates due to increased material, labour or other costs, which could make completion of the project uneconomical because we may not be able to increase rents to compensate for the increase in construction costs;
- we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorisations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;
- we may be unable to complete construction and leasing of a property on schedule, resulting in increased debt service expense and construction or renovation costs and may result in termination of existing investment agreements, resulting in claims by third parties for damages and termination of the respective land leases;

- we may lease developed properties at below expected rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

Any negative change in one or more of these factors listed above could adversely affect our business, financial condition and results of operations.

***New acquisitions may fail to perform as expected***

As part of our strategy we intend to acquire rights to land plots to develop properties for income generation and capital appreciation. Such properties may fail to perform as expected. Additionally, we may underestimate the costs associated with the development and construction of such properties. In either of these circumstances, our business, financial condition and results of operations could be adversely affected.

***Our rental revenues will depend upon the financial stability of our tenants***

The financial stability of our tenants may affect the financial performance of these properties. Tenant defaults could result in a significant reduction in rental revenues, which could require us to contribute additional capital or obtain alternative financing to meet obligations under any financing arrangements relating to such properties. In addition, the costs and time involved in enforcing rights under the lease with a defaulting tenant, including eviction and re-leasing costs, may be significant. The financial stability of tenants may change over time. Any downgrading of tenants' credit ratings or adverse change in their financial condition may negatively affect the value of property in which such tenants lease space.

***We may not be able to renew leases or re-let space on favourable terms as leases expire***

The majority of our retail leases are for a one-year term. If our tenants decide not to renew their leases upon expiration, we may not be able to re-let their space on terms as favourable as those contained in the current leases, if at all. If tenants do not renew their leases, we may need to expend significant time and money to attract replacement tenants. If we cannot promptly renew the leases or re-let the relevant space, or if the rental rates upon renewal or reletting are significantly lower than the expected rates, then our business, results of operations and financial condition will be adversely affected. In addition, in connection with any renewal or re-letting, we may incur costs to renovate or remodel the space. Consequently, our cash flow would be reduced.

***We lease the land underlying our developments from the City of Kyiv and these ground leases subject us to additional risks***

The land underlying most of our properties is leased from the Kyiv City Council. A number of our land leases have relatively short terms. Under Ukrainian law, a lessee has a pre-emptive right to extend its lease upon expiry provided it has fulfilled all obligations under the lease. However, Ukrainian courts have held that the pre-emptive right will not apply if the lessor decides not to continue leasing the land. Accordingly, if the Kyiv City Council decides in the future to stop leasing the properties underlying our developments, then we may lose our right to use these properties upon the expiration of our current leases. In addition, several of our leases contain conditions, some of which are beyond our control. These include requirements to complete construction by a specified date, to obtain permits, to change the designated use of properties and to acquire and renovate other properties for contribution to the City authorities. If we are unable to fulfil these conditions, the Kyiv City Council could terminate or refuse to renew our ground leases. Some of our properties are near historical sites and may, therefore, be subject to archeological investigation prior to development, which may delay or even restrict our work at these sites.

As in other Eastern European countries, upon the termination of a ground lease, the lessee theoretically is required to vacate the property and to remove any uncompleted buildings and developments thereon. However, once a lessee constructs buildings or structures on land, it has rights in those buildings and structures separate and apart from the underlying land. The practical effect of these rights is that the owner of the buildings and structures will have a perpetual right to occupy the property irrespective of the absence of a ground lease. If we were ever required to vacate a property, it could have a material adverse effect on our business, financial condition or results of operations and there is no certainty of any compensation from the municipal authorities.

In addition, the existence of ground leases may also limit our ability to transfer properties, as land leases are effectively non-transferable in Ukraine. As a result, we generally hold each lease through a special purpose entity, which allows us to transfer a development, including the ground lease, by transferring the Shares of the relevant entity. However, some of our special purpose entities hold leases for multiple properties. In particular, our subsidiary LLC “Elitne Zhytlo” holds leases for our Lypska Street and Klovsyky Uzviz properties and CJSC “Kvadrat-Ukraina” holds leases for our Popudrenka Street, Myloslavska Street and Balzaka Street properties. As a result, a sale of the interests in any of these properties can only be effected by the sale of all of the sites held by the common holding company.

***The real estate book values and appraisals included in this document may not accurately reflect the market value of our properties***

The real estate book values and appraisals referred to in this document are made as at specified dates, and there can be no assurances that these figures accurately reflect the market value of our properties as at any other date. In addition, certain assumptions and valuation models were used in the preparation of the appraisals, and the use of different assumptions or valuation models would likely produce different valuation results. In particular, DTZ has assigned a value to each of these properties based upon its assumptions as to the expected highest and best use of the property by a typical Ukrainian developer, including the amount a local developer might be expected to pay for the properties in their current state. Accordingly, these valuations are not based in all instances on our planned use of these properties and, with respect to certain properties, DTZ assumes a smaller scope of project than we have planned. The DTZ Report also considers each property in isolation, and does not consider potential economies of scale relating to the simultaneous development of multiple properties. The DTZ Report values our properties on an unleveraged basis while we assume that certain levels of indebtedness will be incurred in connection with the development of properties. Therefore, the book values and appraised market values included herein should not be taken as an indication of the proceeds that we could achieve in the sale of any of our properties.

***Our properties face competition***

We face competition from other owners, operators and developers of retail, commercial and residential properties. Substantially all of our properties face competition from similar properties in the same markets. Such competition may affect our ability to sell apartment units, attract and retain tenants and reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to make space available at lower rental rates than the space in our properties. In addition, our retail properties compete with other retail distribution channels in attracting customers, including discount centres, outlet shopping centres, discount shopping clubs, direct mail, telemarketing and e-commerce, which could reduce demand for our retail space. This combination of circumstances could adversely affect our business, financial condition and results of operations.

***Competition for acquisitions or an oversupply of properties for sale could adversely affect us***

We expect other real estate investors with significant capital to compete with us for attractive investment opportunities. These competitors may include international developers and institutional investment funds. This competition could increase prices for properties. We face similar competition with other property owners in our efforts to dispose of assets, which may result in lower sales prices. Any such increase in prices for acquired properties or decrease in prices for properties to be sold by us could impair our growth prospects or reduce our available capital, either of which could result in a decline in the market value of the Shares.

***Because real estate investments are relatively illiquid, we may not be able to sell properties when appropriate***

Real estate investments generally cannot be sold quickly. Our properties are subject to tax laws and financing covenants. In addition, in raising additional financing we may encumber new or existing properties, which may further restrict their transferability. As a result, we may not be able to vary our portfolio promptly in response to economic or other conditions, which could have an adverse effect on our business, financial condition and results of operations.

***We may not control the decisions of joint ventures or partnerships in which we have an interest***

We do not have a controlling interest in some of our joint ventures which own some of our properties and/or hold the lease rights to some of the land plots on which our properties are located. See “Our

Business and Properties”. These investments involve risks that are not present with assets in which we own a controlling interest, including:

- the possibility that our co-venturers might at any time have economic or other business interests or goals that are inconsistent with our business interests or goals;
- the possibility that our co-venturers may be in a position to take action contrary to our instructions or requests, or contrary to our policies or objectives;
- the possibility that our co-venturers may have different objectives from us regarding the appropriate timing and pricing of any sale or refinancing of properties; and
- the possibility that our co-venturers or partners might become bankrupt or insolvent.

Even when we have a controlling interest, certain major decisions may require partner approval. If we are unable to reach or maintain agreement with our joint venture partners in the matters relating to the operation of our properties, our business, financial condition and results of operation may be materially adversely affected.

***We are, and immediately after the Placing will continue to be, controlled by our Principal Shareholder***

Prior to the Placing, all of the Company’s outstanding Shares are beneficially owned by Lev Partskhaladze (the “Principal Shareholder”). Assuming the sale of all of the Shares being offered in the Placing, the Principal Shareholder would own approximately 61 per cent. of the Shares, excluding the issuance of Over-allotment Shares. As a result, immediately after the Placing, the Principal Shareholder will continue to effectively control the approval of any action requiring Shareholders’ approval at any level of our ownership structure. In addition, the Principal Shareholder controls other members of our Group. The Principal Shareholder’s interests may differ from those of investors and the Principal Shareholder could take actions contrary to the investors’ interests. For example, the Principal Shareholder will have the ability to exercise control over our strategy, investment policy, acquisition and disposal decisions, financings, dividend payments and other business affairs and corporate matters of our Group that could enhance the value of his equity investment in the Company or other members of our Group without necessarily benefiting the interests of the investors. In addition, the concentration of ownership may have the effect of delaying, deterring or preventing a change in control of the Company, may discourage bids for our Shares at a premium over the market price of the Shares and may otherwise adversely affect the market price of the Shares.

***We have entered and may continue to enter into important agreements and other important arrangements with parties related to the Principal Shareholder***

We have entered into several agreements and other arrangements important to our business with parties under common control with our Principal Shareholder. See “Our Business and Properties—Related Party Transactions”. Although we believe that these agreements and other arrangements are fair to us in all material respects, it is possible that we might have obtained more favourable or less favourable terms from independent third parties. Following the Placing, we may continue to have contractual and other business relationships with parties affiliated with our Principal Shareholder. Management expects that the terms of such business relationships will be no less favourable to us than the terms we could obtain in comparable dealings with unrelated third parties. However, we do not generally intend to obtain opinions as to the fairness of these transactions, and we cannot assure investors that such arrangements reflect terms that would result from arms-length negotiations. In addition, there can be no assurance that in the future we will continue to maintain our relationships with parties affiliated with our Principal Shareholder, or that, if such relationships are no longer maintained, we will be able to enter into alternative arrangements with third parties on terms at least as favourable as those obtained from parties affiliated with our Principal Shareholder, which could materially adversely affect our business, financial condition and results of operations.

***We could be subject to liabilities if it is determined that past actions violated Ukrainian laws or regulations***

Ukrainian corporate law has developed considerably since Ukraine’s transition to a market economy. Some of these laws contain ambiguities, imprecisions and inconsistencies, which make compliance with these laws more difficult. In addition, our business has expanded over the last ten years primarily through private partnerships and these entities often had limited administrative resources. As a result, prior

transactions engaged in by our business may not have fully complied with all corporate formalities. In particular, certain transfers of interests in Group companies may not have fully complied with all technical requirements of Ukrainian corporate law. To date, we have not received any notice of violation from any transferees or from governmental authorities, and we do not expect that any party would seek to review or modify any such transaction. However, there can be no assurance that we will not receive any such notices or claims in the future.

In addition, the Protocol of the Kyiv City Construction Council Meeting that approved the construction of Kvadrat Hnata Yury required that any changes to project documentation must be re-approved by the Kyiv City Council, and the Civil Code deems as unauthorised any construction performed without appropriately approved project documentation. The project documentation for Kvadrat Hnata Yury was amended during construction to increase the total area of the shopping centre. Although we believe that these changes are not significant, there is a risk that the Ukrainian state authorities could challenge the additional construction works at the Hnata Yury site. In this case, our potential liability should not exceed 50 per cent. of the costs associated with construction of the excess area, which we estimate to be approximately US\$150,000.

Moreover, under Ukrainian competition law, the prior approval of the Antimonopoly Committee of Ukraine (the “AMC”) is required for a broad range of transactions where the parties exceed certain asset and sales tests. These transactions include the establishment of a business entity by two or more persons, mergers or consolidations, the acquisition of direct or indirect control over a business entity and obtaining control over more than 25% or 50% of the shares of a business entity. Although it is not entirely clear, AMC approval may have been necessary for certain transactions entered into by our subsidiaries in the past. If the AMC were to take the view that these entities did not obtain the required approval in all instances in which such approval was required, we could be subject to fines, which could be substantial.

#### ***We rely on certain key personnel***

Our success depends to a significant degree upon the efforts and abilities of certain key persons, including our executives. In addition, we benefit from the extensive contacts and relationships of our executives. For instance, our Chairman has more than ten years of property development experience in Ukraine and has developed extensive contacts, including through his service as one of approximately 90 members of the Kyiv City Council. The loss of services of the Chairman or other executives could materially adversely affect our business, financial condition and results of operations.

#### ***Ukrainian tax authorities may challenge past arrangements used to reduce taxes***

In the past, we, similar to many other Ukrainian companies, used tax optimisation arrangements to significantly reduce our tax burden in Ukraine. In recent years, the Ukrainian state authorities have sought to increase business transparency and improve tax collection and tax compliance through changes to the tax legislation and procedures for conducting tax audits, and by challenges to various tax optimisation arrangements. Although to date the Ukrainian tax authorities have not challenged our past tax optimisation arrangements, there is no assurance that such arrangements will not be successfully challenged. If the Ukrainian tax authorities successfully challenge our past tax optimisation arrangements, we may be ordered to pay back taxes and related interest, as well as penalties, which may result in significant losses and materially adversely affect our business, financial condition and results of operations.

In addition, we pre-sell our apartment units through the sale of “purchase certificates” to avoid capital gains tax relating to the completion of the premises and VAT. Although these arrangements are commonly used in Ukraine, there can be no assurance that the Ukrainian tax authorities will not challenge the use of such purchase certificates or will not amend the relevant tax laws. If any challenge or change resulted in the imposition of additional taxes on the purchase of residential properties, demand for our apartment units could be negatively affected.

#### ***We are dependent on external sources of capital for future growth***

Our strategy contemplates significant capital expenditures for future property developments and we intend to rely on third-party sources of capital, primarily investments by strategic investors. Such sources of capital may or may not be available on favourable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market’s perception of our growth potential and our current and potential future earnings. If we are not able to obtain third-party sources of capital on

favourable terms, our business, financial condition and results of operations could be materially adversely affected, which could result in a decline in the market value of our securities. Moreover, additional equity offerings may result in the dilution of our Shareholders' interests, and additional debt financing may substantially increase our leverage.

***We have a limited operating history, which may make it difficult to evaluate our prospects***

Although many members of our management team have extensive real estate and business experience, the Company was registered on 2 August 2002 and has been operating for only slightly more than three years. Because audited financial statements under International Financial Reporting Standards ("IFRS") are only available for the year ended 31 December 2004 and for the six months ended 30 June 2004 and 2005, it is difficult to identify long-term trends and developments in our business. As a result of this lack of longer-term historical audited financial data for the Company, prospective investors will have limited information available to them on which to evaluate this offering. To evaluate our historical performance and our prospects, you should consider the risks, expenses, uncertainties and obstacles that we may face in implementing our strategy and in conducting our current and planned business. In addition, the financial information contained in this document may not be indicative of our financial condition or results of operations in the future.

***Any deterioration of our relationships with governmental authorities may have a negative effect on our business***

Historically, land in Ukraine was owned by the state and in most regions, including Kyiv, the state and local governments are still the main landowners who decide when and how to sell or to lease land. Ukrainian governmental authorities have a high degree of discretion when selling land and allocating real estate projects. Our business therefore depends on maintaining positive working relationships with the relevant governmental authorities. We believe that we currently have good constructive working relationships with substantially all of the state and local authorities relevant to our business. However, our business, financial condition and results of operations could be materially adversely affected if our relationships with the government authorities deteriorate in the future.

***Our ownership interests or lease rights in land may be challenged and our construction projects may be delayed or cancelled***

Our business includes the acquisition of ownership or lease interests in land plots and buildings in Kyiv and other parts of Ukraine with a view to further development or re-development. In addition, we own or lease buildings in which our businesses are located. Ukrainian land and property legislation is complicated and often ambiguous and/or contradictory. In particular, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with in practice. As a result, our lease rights to land may be challenged by government authorities or third parties, our construction projects may be delayed or cancelled and the operation of our completed properties may be suspended, which could materially adversely affect our business, financial condition and results of operations.

***Environmental problems are possible and can be costly***

Ukrainian and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at or affecting such property. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability on the party which caused the contamination of the site. Even if more than one person may have been responsible for the contamination each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. We generally commission environmental assessments of properties that we acquire in order to try to identify and minimise potential environmental liabilities. However, these environmental assessments may not reveal all environmental liabilities at, or potentially affecting, these properties.

***Insurance may not cover all losses relating to our properties***

We arrange insurance for our developed properties that is customary for similar properties in the area. However, certain types of losses, such as wars and terrorism, are either uninsurable or not economically

insurable. Losses that are not covered by insurance may have a material adverse effect on our business, results of operations and financial condition.

***The development of our properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect our business***

The planning and approval process in Kyiv is bureaucratic and involves uncertainty. A number of preliminary planning approvals are necessary to receive a land lease and, following the granting of the lease, the approval of the department of Architecture and Urban Planning is required, in addition to the confirmation of the technical conditions of the proposed project from the City's main utility providers: fire, health and safety, environmental protection and sanitary departments. In addition, with respect to some of our properties, including Luteranska and Vyshhorod, we are required to obtain the permission of the City authorities to change the designated use of those sites prior to their development. See "Our Business and Properties—Significant Policies and Procedures" and "Legislation of Ukraine Related to Real Property". These requirements may hinder, delay or significantly increase the costs of our developments, all of which may materially adversely affect our business, financial condition and results of operations.

Under Ukrainian law, the construction of buildings may only be carried out based upon the specifications approved by the Kyiv City Council. The DTZ Report included in Part VII notes that some of our buildings appear to differ from their project documentation. If these properties were deemed to be unauthorised by the City, then we may be subject to fines and penalties, which may amount to up to 50 per cent. of the cost of construction of the buildings. We believe that it is unlikely that we would be subject to such penalties or fines, particularly as any non-conforming aspects of our developments do not affect the use of these premises. However, we cannot assure you that the Kyiv authorities would not seek to take action with respect to these or any future perceived noncompliance with applicable laws, regulations and requirements.

***Changes in laws could adversely affect our properties***

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

**Risks Related to Debt Financing**

***To the extent that we incur significant amounts of indebtedness, scheduled debt payments could adversely affect us***

We have been exposed to limited amounts of debt to date in connection with the acquisition and development of properties; however, we intend to use debt financing for our future developments, which may result in substantial indebtedness. As a result, the risks normally associated with debt financing may affect our business. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, our cash flow may not be sufficient in all years to repay all maturing debt. If prevailing interest rates or other factors at the time of refinancing, such as the possible reluctance of lenders to make commercial real estate loans, will result in higher interest rates, the increased interest expense would adversely affect our ability to service debt and complete the development of our projects. In addition, if we are unable to refinance such indebtedness on acceptable terms, or at all, we may need to dispose of one or more of our properties on disadvantageous terms. If we mortgage property to secure the payment of indebtedness, including the mortgage of existing properties under future financing arrangements, and are unable to meet mortgage payments, the mortgagee could foreclose upon such property or appoint a receiver to receive an assignment of our rents and leases.

***Rising interest rates could adversely affect our cash flow***

Advances under our credit facilities bear interest at a variable rate. We may borrow additional monies with variable interest rates in the future. Increases in interest rates would increase our interest expense, which would adversely affect our results of operations. Such increases in interest rates could also adversely affect our cash flow and our ability to service debt.



### ***Financial covenants in our debt agreements could restrict our range of operating activities***

Our credit facilities contain customary requirements, including restrictions and other limitations on our ability to incur debt as a result of financial covenants requiring the maintenance of debt to assets ratios, secured debt to total assets ratios, debt service coverage ratios, fixed charge coverage ratios and minimum ratios of unsecured debt to unencumbered assets. These and other covenants will reduce our flexibility in conducting our operations and create a risk of default on our debt if we cannot continue to satisfy them.

If we were to breach certain of our debt covenants, our lenders could require us to repay the debt immediately, and, if the debt is secured, could take possession of the property securing the loan. In addition, any breach may result in cross-defaults under other indebtedness.

### ***We may be able to incur substantially more debt which would increase the risks related to debt financing***

Our governing documents do not limit the amount or the percentage of indebtedness that we may incur. If we incur a substantial amount of new debt, the related risks relating to debt financing, as described above, could intensify.

### **Risks Related to Ukraine**

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state. Concurrently with this transformation, Ukraine is progressively changing to a market economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although this list is not an exhaustive one.

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

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

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

Official statistics and other data published by Ukrainian State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. We have not independently verified such official statistics and other data and any discussion of matters relating to Ukraine in this document is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information.

Specifically, investors should be aware that certain statistical information and other data contained in this document have been extracted from official governmental sources in Ukraine and were not prepared in connection with the preparation of this document. We accept responsibility only for the correct extraction and reproduction of such information.

#### ***The lack of publicly available data on the real estate market in Ukraine makes it difficult to value our real estate properties***

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

makes it difficult to assess market values and rental values of real estate in Ukraine. Although an independent appraiser has valued our key real estate properties, we cannot assure you that the values ascribed to those properties reflect their actual market values. Details of the valuation methodology and the assumptions used by the independent appraiser are set forth in its report included as Part VII of this document. In addition, the values ascribed to our properties by the independent appraiser may not represent the amounts that could be obtained upon disposal of such properties, and as many of these properties and development projects are not 100 per cent. owned by us, not all of such value can be attributed to our consolidated Group. See also “Our Business and Properties” for a summary description of the valuation methodology and the assumptions used by the independent appraiser.

#### ***Ukraine may experience political instability or uncertainty***

Historically, a lack of political consensus in the Verkhovna Rada (Parliament) of Ukraine has made it consistently difficult for the Ukrainian government to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene and, as a result, Ukraine has had fourteen different prime ministers during this period. The various State authorities, and the relations with them, as well as the Ukrainian government’s policies and the political leaders who formulate and implement them, are subject to rapid change.

Following the second round of presidential elections in November 2004, massive demonstrations and strikes took place throughout Ukraine to protest the election process and results. While tensions in Ukraine appear to have subsided following the invalidation of the November election results by the Supreme Court of Ukraine and the revote of the presidential runoff held on 26 December 2004 resulting in the victory of Mr Viktor Yushchenko, the long-term effects of these events and the policy direction of the new Government are not yet clear.

The Cabinet of Ministers that was appointed in February 2005 and led by Yulia Tymoshenko as Prime Minister was formed based on a compromise of different political and economic groups that supported Mr Yushchenko at the time of the elections. Certain ministers and other officials were allegedly appointed due to their close relations with Mr Yushchenko. In September 2005, President Yushchenko dismissed the Prime Minister and the entire Government following certain resignations and claims of corruption. On 22 September 2005, President Yushchenko won the necessary approval of the Parliament to name Yuri Yekhanurov as Ukraine’s new Prime Minister.

The President has yet to set out detailed economic and other policy goals. Swift action by President Yushchenko is necessary as a result of, among other things, constitutional reform scheduled to occur in January 2006 which will significantly limit the powers of the President and transfer them to the Parliament and the prime minister.

President Yushchenko’s policies are generally expected to have a positive effect on the economy and political stability of Ukraine. However, he faces several challenges: appeasement of the divergent factions within the eastern and western regions of Ukraine, recovery of relations with Russia, implementation of unpopular economic reforms and building of a political consensus. There is no certainty that President Yushchenko’s policies will succeed or that political stability will be achieved. Political instability in Ukraine may have negative effects on the economy and thus on our business, financial condition and results of operations.

#### ***Ukraine may experience economic instability***

In recent years, the Ukrainian economy has been characterised by a number of features which contribute to economic instability, including:

- a relatively weak banking system, providing limited liquidity to Ukrainian enterprises;
- tax evasion;
- significant capital flight; and
- low wages for a large portion of the Ukrainian population.

Although the Ukrainian Government has generally been committed to economic reform, the implementation of reform has consistently been impeded by a lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors and the limited extent of cooperation with international financial institutions.

Whereas the Ukrainian economy has improved in a number of areas since 1999, there has historically been no clear consensus between the President and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current reform policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will continue to improve.

While Ukraine has made significant gains in increasing its gross domestic product (“GDP”), decreasing inflation, stabilising its currency, increasing real wages, and improving its trade balance and current account surplus, the political instability in the fourth quarter of 2004 negatively impacted the main economic indicators at that time. While Ukraine’s economy largely withstood the recent political upheaval, the first six months of 2005 have been a difficult time for the new Government and the President. The rate of inflation for 2005 is expected to be 9.8 per cent., which is lower than the inflation of 12.3 per cent. in 2004, but higher than the inflation of 8.2 per cent. and (0.6) per cent. in 2003 and 2002, respectively. In addition, it is expected that in 2005, Ukraine’s GDP growth will be slower than in 2004 and 2003, with growth forecast to be approximately 4.5 per cent. (as compared to 12.1 per cent. and 9.4 per cent. GDP growth in 2004 and 2003, respectively). An economic downturn may have an adverse effect on our business, financial condition and results of operations.

Recent statements made by the Minister of Economy of Ukraine and other officials have suggested that the Ukrainian currency, the hryvnia, is undervalued and the Government may take steps to revalue the hryvnia. On 21 April 2005, the National Bank of Ukraine (“NBU”) set the hryvnia/U.S. dollar exchange rate at 5.05, compared with 5.28 on 1 April 2005. Such revaluation may adversely affect Ukrainian exports and the Ukrainian economy generally, which may have an adverse effect on our business, results of operations and financial condition.

***Changes in Ukraine’s relationships with Western governments and institutions may affect our business***

Ukraine continues to pursue the objectives of having a closer relationship with the North Atlantic Treaty Organisation (“NATO”); it is planning to join the World Trade Organisation (the “WTO”) in the next few years and to become an associate member of the European Union (the “EU”). It has recently strengthened its relationship with the United States and was part of the coalition that sent troops to Iraq in support of the U.S.-backed military campaign. Although, in late 2004, the Ukrainian Parliament decided to withdraw troops from Iraq, which was confirmed by the adoption of a Presidential Decree in April 2005, this withdrawal did not adversely affect Ukraine’s relationship with the United States. Shortly after President Yushchenko’s visit to Washington, D.C. in early 2005, the U.S. Senate allocated an additional US\$60 million of financial assistance to Ukraine, which was subsequently approved by the U.S. House of Representatives. Ukraine also expects the United States to support its WTO aspirations and abolish the Jackson-Vanik Amendment that currently restricts Ukrainian exports. However, such actions, as well as the recognition by the United States of Ukraine as a market economy, may be conditioned upon the demonstration by Ukraine of sufficient intellectual property protection efforts.

Any adverse changes in Ukraine’s relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the Ukrainian economy and thus may adversely affect our business, financial condition and results of operations.

***Regional relationships upon which Ukraine depends for its economic growth may deteriorate and affect our business***

Ukraine generally maintains positive relations with its neighbours. Historically Ukraine has had close relationships with the Russian Federation and Poland. Significant relations have also been developed with other countries of the European Union (“EU”) (including Germany, Hungary and Slovakia), the current or former Commonwealth of Independent States (“CIS”) countries (including Belarus and Georgia), as well as Turkey and Romania.

At the beginning of August 2004, the Russian Parliament (Gosudarstvennaya Duma) adopted a law amending certain provisions of Russia’s Tax Code. As a result of these amendments, exports of oil and gas from Russia to Ukraine will be subject to a zero per cent. VAT rate instead of the previously effective 18 per cent. VAT rate. These amendments entered into force on 1 January 2005.

However, relations between Ukraine and Russia have been, to a certain extent, adversely affected by the recent Ukrainian presidential elections and related political turmoil. Russia has repeatedly increased its

oil export duty. For example, it rose from US\$102.60 at the beginning of 2005 to US\$140.00 per tonne as of 1 August 2005. Russia further increased its oil export duty to US\$179.90 per tonne as of 1 October 2005. In April 2005, Ukraine signed a long-term agreement with Turkmenistan for the supply of natural gas at the price of US\$58.00 per thousand cubic metres with a contemplated volume of approximately 50 billion cubic metres annually, which may substantially reduce Ukraine's energy dependence on Russia.

Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting the supply of energy from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas, may also have negative effects on the Ukrainian economy and thus may adversely affect our business, financial condition and results of operations.

#### ***Ukraine has a substantial amount of external debt***

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt burden resulting from the accumulation of large payments on external debt coming due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal and interest but excluding debt owed to the International Monetary Fund (the "IMF")) to GDP has risen from approximately 1.9 per cent. as at 31 December 2001 to approximately 2.3 per cent. as at 31 December 2002, and approximately 2.9 per cent. as at 31 December 2003, and has fallen to approximately 2.4 per cent. as at 31 December 2004 based on official Ukrainian government sources. Total government external debt servicing (excluding payments to the IMF) was approximately US\$1.4 billion in 2003, approximately US\$1.5 billion in 2004 and is estimated to be approximately US\$1.6 billion in 2005, based on official government sources.

Ukraine has been able to access the international capital markets raising approximately US\$1 billion in new financing in 2003 and US\$1.1 billion in 2004 and its credit rating was upgraded from B2 to B1 by Moody's in November 2003, from B+ to BB- by S&P in May 2005 and from B+ to BB- by Fitch in January 2005. However, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future. Under such circumstances, any failure of Ukraine to receive support from official creditors and international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect our business, financial condition and results of operations.

#### ***The Ukrainian economy is sensitive to fluctuations in the global economy***

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or other major export markets. Any of such developments may have negative effects on the economy of Ukraine which in turn may adversely affect our business, financial condition and results of operations.

#### ***Ukraine may not be able to maintain access to foreign trade and investment***

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain attractive to foreign trade and investment. In particular, the climate for foreign direct investment may be adversely affected by the plans initiated in early 2005 by the President and the Government to review the privatisation of 22 major companies that they believe were sold at unfairly low prices under the previous government. Any deterioration in the climate for foreign direct investment in Ukraine could have an adverse effect on the economy of Ukraine which in turn may adversely affect our business, financial condition and results of operations.

#### ***Corruption and money laundering may have an adverse effect on the Ukrainian economy***

External analysts have identified corruption and money laundering as problems in Ukraine. An anti-money laundering law came into force in Ukraine in June 2003 that significantly improved money laundering monitoring procedures. The NBU and financial institutions are now required to take

comprehensive actions to monitor certain financial transactions more closely for evidence of money laundering. As a result of the passage of this law and amendments to other related anti-money laundering legislation, in February 2004 Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering (“FATF”). However, any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine which in turn may adversely affect our business, financial condition and results of operations.

***Potential social instability in Ukraine may affect our business***

The failure of the Ukrainian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits in Ukraine 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. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the Ukrainian economy, and possible violence. Any of these events could adversely affect our business, financial condition and results of operations.

***Ukraine’s evolving legal system is subject to risks and uncertainties, which may have an adverse effect on our business***

Since independence in 1991, as Ukraine has been transforming from a planned to a market based economy, the Ukrainian legal system has also been developing to support this market based economy. Ukraine’s legal system is, however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to:

- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- inconsistencies between and among the Constitution of Ukraine, laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts;
- the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- the relative inexperience of judges and courts in interpreting Ukrainian legislation and the general inconsistency in their interpretation of Ukrainian legislation in the same or similar cases;
- corruption within the judiciary; and
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, with effect from 1 January 2004, Ukraine adopted a new civil code, a new economic code, a new mortgage finance law and a new law on personal income tax. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts with regulatory authorities.

These and other factors that impact on Ukraine’s legal system make an investment in the Shares subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

There are uncertainties relating to Ukraine’s judicial system, which may make legal recourse and enforcement against us difficult or impossible.

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain largely untested. Although the Constitutional Court of Ukraine is the only body

authorised to exercise constitutional jurisdiction and has mostly proven its impartiality of judgment, the system of constitutional jurisdiction itself remains too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine and the applicable Ukrainian legislation, on the one hand, and among various laws of Ukraine, on the other hand.

The system of general and specialised courts is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Court decisions are not open to public access and, therefore, may not serve as guidelines in interpreting applicable Ukrainian legislation to the public at large. Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system became more complicated and hierarchical as a result of the recently introduced judicial reform. The expected result of the judicial reform is that the Ukrainian judicial system will become even slower than before.

Enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice the procedures employed by the State Execution Service do not always comply with the applicable legal requirements, resulting in delays to or failures in enforcement of court orders and judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and, in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under the applicable Ukrainian legislation, the Government and/or the Parliament of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a certain date in the past.

These and other factors that impact on Ukraine's judicial system make an investment in the Shares subject to greater risk and uncertainty than an investment in a country with a more developed judicial system.

### ***Uncertainties of the tax system***

Ukraine currently has a number of laws related to various taxes imposed by both central and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), customs duties, a number of turnover-based taxes, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, often resulting in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for us and our business generally. For example, with effect from 1 January 2004, personal income tax was reformed by the introduction of a new flat tax of 13 per cent. (to be increased to 15 per cent. from 1 January 2007) for all levels of income. In addition, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30 per cent. to 25 per cent. Recent amendments to the Budget Law, effective since 31 March 2005, abolished different tax preferences, including, *inter alia*, those for domestic and foreign investors that may become grounds for numerous lawsuits against the State. Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict.

Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems.

Generally, tax declarations/returns in Ukraine remain open and subject to inspection for three years. However, this statutory limitation period may not be observed or may be extended in certain circumstances.

We believe that we are currently in compliance in all material respects with the tax laws of Ukraine affecting our operations. While the authorities have consistently found us to be in compliance in all material respects with the applicable tax laws, it is possible that the relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may result in a material adverse effect on our business, financial condition and results of operations.

#### ***Disclosure and reporting requirements and fiduciary duties***

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of the market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with Western or European standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders is not as developed in Ukraine as it is in the United States or Western Europe. While we consider that we have adequate corporate governance and internal reporting procedures in place, violations of disclosure and reporting requirements or breaches of fiduciary duties by our Directors or to our Shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, which in turn may materially adversely affect the value of an investment in the Shares.

#### **Risks Related to the Shares**

##### ***Currently, there is no liquid market for the Shares***

Before this offering, there has been no trading history regarding the Shares and Admission should not be taken as implying that there will be a liquid market for the Shares. Moreover, the Shares have never been freely traded and there can be no assurance that, upon completion of this offering, any active trading market for the Shares will develop or be sustained and that investors may be able to resell the offered securities at or above the Placement Price or at all. It is likely to be more difficult for an investor to realise its investment on AIM than to realise an investment in a company whose Shares are quoted to the Official List of the United Kingdom Listing Authority.

##### ***Future issuance or sale of Shares of the Company may affect the market price of the offered securities***

Future sales of substantial amounts of Shares of the Company by its existing Shareholders or even the perception that such a sale might occur could adversely affect the market price of the Shares. In addition, any future equity offerings by the Company may reduce the percentage ownership of the existing Shareholders of the Company. Newly issued Shares may have rights, preferences or privileges attached to them that are senior to those attached to the Offered Securities.

##### ***Takeover protection laws do not apply to our Company***

As the Company is incorporated in Cyprus, it is subject to Cyprus law. The City Code on Takeovers and Mergers in the United Kingdom will not apply to the Company. Cyprus law does not contain any provisions similar to those applicable in the United Kingdom which are designed to regulate the way in which takeovers are conducted. It is therefore possible that an offeror may gain control of the Company in circumstances where non-selling Shareholders do not receive, or are not given the opportunity to receive, the benefit of any control premium paid to selling Shareholder(s).

##### ***Financial turmoil in emerging markets could cause the price of the Shares to suffer***

The financial turmoil in emerging markets of 1997 and 1998 has adversely affected market prices in the world's securities markets for companies operating in the affected developing economies. There can be no assurance that renewed volatility stemming from these factors, or other similar factors that may arise in other emerging markets or otherwise, will not adversely affect the price of the Shares even if the Ukrainian economy remains relatively stable.

## **PART III**

### **DESCRIPTION OF THE KYIV REAL ESTATE MARKET**

The information on the Ukrainian real estate market contained in this document is based upon publicly available sources, proprietary research and analysis by independent firms and our own evaluation. Unless otherwise indicated, all data are as of the year end and all prices and rates in this section are net of VAT.

#### **Overview**

The City of Kyiv, which was founded over 1,500 years ago, is amongst the oldest cities in the world. It is the capital of the independent nation of Ukraine and its financial, political, commercial, scientific and cultural centre. With its population of over 2.6 million people, Kyiv is Ukraine's largest city, covering an area of more than 836 square kilometres, straddling the Dnipro, the third longest river in Europe. The combination of economic growth and political stability has led to improvements in Ukraine's investment climate, from which the Kyiv real estate market, both residential and commercial, has significantly benefited.

Kyiv has two levels of government: a municipal government and ten self-administered municipal districts. The two principal bodies in the municipal government are the Kyiv City Council and the Kyiv City State Administration. The Kyiv City Council is responsible for the adoption of decisions regarding the disposition of City property, including real estate, and for the determination of land taxes to be paid by owners of land plots within the City limits. See "Legislation of Ukraine Related to Land and Real Property".

According to DTZ, Kyiv currently has an undersupply of high quality investment grade buildings and real estate development. The main barriers to development activity are the lack of capital on reasonable terms for investment, the lack of available land plots for new construction, the awkward approval process and the difficulty of acquiring existing buildings for refurbishment. However, the legislative and judicial environment is improving, with, for example, land now auctioned at open tenders. As the business environment has improved, the secondary market for real estate is also now beginning to develop.

Real estate development is almost entirely carried out by domestic groups, which tend to be more prepared than international developers to acquire and redevelop unused industrial and administrative buildings in good locations. However, international investors, such as Europolis, have begun to show interest in the market, particularly with respect to the development of high quality office buildings. This is the traditional asset class for the more risk adverse investors.

#### ***Kyiv Retail Market***

Although the retail sector in Kyiv remains immature by Western standards, it has developed in recent years, and this development has been supported by sustained rates of GDP growth, rising incomes and perceived improvements in the political situation. Moreover, Kyiv's retail market benefits from its relatively large population of 2.6 million residents, in addition to commuters from neighbouring towns.

The most developed retail area remains the central Khreshchatyk high street and the surrounding area, where many foreign-branded fashion stores are located. Kyiv has other modern retail centres, including Metrograd, Mandarin Plaza and Arena City, at one end of Khreshchatyk, and Globus at Independence Square at the other end of Khreshchatyk. Another retail location is Sofiyska Square, which has a number of internationally recognised retail stores.

In 2003, retail centres were opened outside the historic centre of Kyiv, including in the renovated "Ukrayina" retail and leisure centre at Peremohy Square and the Europort retail centre near the Central railway station. We believe that these retail centres have been slow to develop because they are outside the central area and there is relatively low car ownership within Kyiv. However, we believe that a number of centres located outside central Kyiv are successfully operating. Among these are the Gorodok retail centre, which was opened in the Petrivka area in northern Kyiv in 2003. Additionally, the first two phases of a 42,000 square metre retail and leisure complex, named "Karavan", have opened in the northern Obolonskyi district, as well as Promenada Centre in the north-west of Kyiv, Magellan in the southern periphery, the multi-brand retail centre Makros and the Alta-Centre fashion retail centre in Petrivka and the retail and leisure centre Metropolis by the Obolon metro station.

The left bank of the Dnipro River has been gradually attracting more interest amongst retail developers based on the consumer potential of the new residential developments there. The left bank is also



attractive because of the shortage of land plots in the western part of the City. In 2004, the Pyramida retail centre and the first phase of the Aladdin retail and leisure centre were opened in the Kharkivskiyi district. The Swedish company IKEA publicly announced its intention to open a 200,000 square metre retail and leisure centre near Kharkivska Square on the left bank by 2006. This project has now run into difficulties with planning and appears unlikely to proceed as planned. It does, however, demonstrate IKEA's interest in Kyiv, and DTZ believe that once an IKEA centre is opened it is likely that it will attract high quality tenants and influence the Kyiv retail market.

A 100,000 square metre centre, named Lybid Plaza, and a 106,000 square metre centre, named Olympic Plaza, have been announced. With only preliminary ground work undertaken, DTZ forecasts that the centres will be completed in or after late 2007.

International retail chains have been gradually expressing increased interest in the Ukrainian market. Austria's Billa opened the first food retail centre outside the centre of Kyiv in early 2000. It has opened a number of additional outlets since that time. The German wholesaler METRO Cash & Carry, the fourth largest retailer in the world, as well as local retailers Furshet, Megamarket, EuroMart, Begemot, Velyka Kyshenya and Silpo, have also opened lower-end supermarket outlets in the more densely populated suburban areas surrounding Kyiv. In 2002, Holland's Spar, through local investors, entered the Kyiv market, opening a number of small outlets in early 2005. Also in 2005, the Ukrainian food supermarket "Paterson" opened in the Metropolis retail and leisure centre in the Obolonskyi district. Recently, international operators, such as OBI and Ramstore, in addition to IKEA, have announced their intention to enter the Ukrainian market. According to A.T. Kearney, a property consulting firm, the international retailers Baltic VP Market, Portugal's Jeronimo Martins and the Hungarian trade alliance CBA have also announced plans to enter the Ukrainian market.

Retail rents in the first half of 2005 have generally remained at the level of previous periods. The monthly rental rates for modern space along Khreshchatyk range from US\$60 to US\$130 per square metre, depending upon location, quality and size. Within shopping centres, average monthly rental rates range from US\$9 per square metre for anchor tenants, US\$60 to US\$80 per square metre for average retail units in Globus and Mandarin Plaza and US\$25 to US\$30 per square metre for average retail units in Ukrayina. The rental rate for a small retail unit in a popular central retail centre may be as high as US\$180 per square metre. Generally, the rental rates for space in retail centres vary depending on a number of factors, including the quality, location and popularity of the centre, the brand of the tenant and the size and location of the retail unit.

In the short and medium term, it is expected that demand for retail space in Kyiv will continue to exceed supply as the retail market develops. Prime retail rental rates are expected to decrease slightly in the next three years as new space is opened, although rental rates for high quality retail units in the centre of Kyiv are expected to remain stable throughout 2005.

The following table summarises the principal characteristics of Kyiv's major retail centres:

<u>Retail Centre</u>	<u>Year(s) Completed</u>	<u>Location</u>	<u>Total Area, sqm</u>	<u>Retail Area, sqm</u>	<u>Type</u>
Metrograd . . . . .	2002	CBD <sup>(1)</sup>	20,000	17,000	Underground retail Underground/Surface mall
Globus Centre. . .	2002/2003	CBD	15,800	—	/Food-court
Mandarin Plaza .	2003	CBD	12,050	7,500	Retail/Food supermarket
Kvadrat chain . . .	2000-2003	Throughout Kyiv	35,000	25,000	Underground and surface retail centres
GorodOK. . . . .	2003	Petrivka	12,000	10,000	Retail/Food-court
Ukrayina . . . . .	2003	West of CBD	38,000	17,000	Retail-leisure/Food supermarket
Rhythm . . . . .	2003	Borschahivka	32,000	6,000	Retail-leisure/Food supermarket
Karavan					Retail-leisure/
Megastore . . . .	2003/04/05	Obolon Southern periphery	42,000	16,000	Hypermarket/Food-court Retail-leisure/Food supermarket/Food-court
Magellan . . . . .	2004	Poznyaky	29,000	24,000	Retail-leisure/Food-court
Aladdin . . . . .	2004 /05	Poznyaky	16,000	16,000	Low-end retail centre/ Food supermarket
Piramida. . . . .	2004	Poznyaky	16,000	11,000	Retail-leisure/Food supermarket
Metropolis . . . . .	2004/05	Obolon	31,000	12,000	Retail/Food supermarket/ Food-court
Promenada Centre. . . . .	2004 (phase 1)	Tatarka	40,000	25,000	Stock retail/Food supermarket
Makros . . . . .	2004	Petrivka	11630	15,000	Retail specialised in clothes/Food-court
Alta-Centre . . . .	2004	Petrivka	23200	8,290	

Source: DTZ

(1) Central Business District

The following table summarises the expected principal characteristics of proposed retail centres in Kyiv, excluding our proposed retail developments:

<u>Retail Centre</u>	<u>Expected Completion</u>	<u>Location</u>	<u>Total Area, sqm</u>	<u>Retail Area, sqm</u>	<u>Developer/Nationality</u>
Mega Mall. . . . .	2007/09	Non-central	200,000	170,000	IKEA (Sweden)
Lybid Plaza . . . .	2007/08	Non-central	100,000	60,000	CJSC 'Lybid-Plaza' (Ukraine/Hungary)
Olympic Plaza. .	2007/08	Non-central	106,000	40,000	NEST-Hanner (Ukraine/Lithuania)

## **Kyiv Residential Property Market**

### ***General Overview***

In the second quarter of 2005, the existing residential stock in Kyiv was approximately 55 million square metres, or five per cent. of the total residential square footage in all of Ukraine. Kyiv has been experiencing a residential construction boom in the past several years. During the last four years, it is estimated that more than one million square metres of residential space have been constructed each year in Kyiv. According to the Master Plan of Kyiv Development until 2020 approved by the Kyiv City Council, the average flat size is expected to increase from 51 square metres to 62 square metres. Over the same period the residential square footage per capita is expected to increase from 20 to 35 square metres, assuming an additional 25 million to 30 million square metres of residential space being built in the City.

### ***Major Districts***

Kyiv is divided in two by the Dnipro River. Traditionally, the central districts of the right bank, Pecherskyi and Shevchenkivskyi, are considered to be elite residential areas, comprised mostly of residential

apartment blocks, which date back to the end of the nineteenth and early twentieth centuries. Several new high-end residential complexes are planned for delivery in this area, including Ambassador House and complexes on Tarasa Shevchenka Boulevard. New residential complexes have been developed at other popular areas, including Staronavodnytska Street and Lesi Ukrainky Boulevard, both in Pecherskyi district. In these locations, the sales prices are typically US\$1,200 to US\$3,500 per square metre of “shell-and-core” space; however, in some complexes prices may be as high as US\$7,000 per square metre.

Velyka Vasylykivska Street, Antonovycha Street, Saksahanskogo Street and Zhylyanska Street are located approximately two kilometres south of the historic centre, but within Kyiv’s Central Business District, or CBD, as determined by the Real Estate Committee of the American Chamber of Commerce. The area is mainly residential with new high-rise developments. However, within this area construction has recently begun on new high-quality office buildings. In addition, developers have begun to refurbish old mansions into office space.

Podil is located on the right bank of the Dnipro River, 1.5 kilometres north of Kyiv’s centre, and is the old part of the City. The residential accommodation in Podil typically consists of old four- to five-story buildings constructed in the early twentieth century, most of which are in need of refurbishment. Several new residential complexes are under construction in this area. Several banks and insurance companies have chosen locations in Podil due to the availability of detached buildings and quality office premises. The sales price of shell-and-core residential space in Podil is typically US\$1,000 to US\$2,500 per square metre.

### ***Primary Residential Market Overview***

A number of developers are active in the Kyiv residential property market, including Kyivmiskbud, Poznyakyzhybud, Trest KyivMiskbud-1, Zhytloinvestbud-UKB (formerly Zhytlo-Invest), Kyiv Zhytlo-Invest, Firma TMM and HCM. Recently, Zhytlobud, Pan Dobrobud, Capital Real Estate, Zhytlo XXI Century and DiA Development have become active in Kyiv.

We believe that, although there are a number of new residential centres classified by the developers as being high-end, Kyiv has a shortage of space that can be considered deluxe or premium residential space according to international standards. As a result, we expect that new residential premises will be of higher quality to meet this demand.

In Kyiv, newly-built residential complexes usually comprise office and/or retail premises on the ground floor, with residential space on the upper floors. These developments sometimes also provide lower-floor amenities such as food stores, fitness centres, beauty salons, hairdressers, medical centres and restaurants.

According to DTZ, prices for newly built residential space have been steadily increasing. This is primarily due to increasing demand and the limited number of suitable development sites, as well as the VAT paid on such properties increasing prices for building materials and labour. DTZ believes that, amongst the factors contributing to increasing demand for residential properties in Kyiv, is a growing perception within the population that residential property is a good long-term asset and an attractive investment option. The introduction of mortgage programmes by local banks has also led to increased demand. DTZ projects, however, that in the medium-term, price increases will slow considerably, and a decrease in general market prices may occur in the longer-term. Considering the undersupply of truly elite housing projects, DTZ believes that well-designed and located centres should better retain their value in any market downturn, relative to other properties.

Generally, prices for shell-and-core residential property on the Kyiv primary market range from US\$600 to US\$7,000 per square metre, including VAT. In Kyiv, as well as in Ukraine generally, residential property is perceived as an attractive investment for personal savings because of steady increases in residential property prices, as well as fluctuations in currency exchange rates, a lack of confidence in the domestic banking system and uncertainties relating to Ukraine’s political situation.

Residential property priced over US\$1,500 per square metre is relatively common in central Kyiv and at prestigious locations considered to be “exclusive”. According to information provided by Kyiv real estate market participants, the majority of apartments are sold during the construction phase and the highest demand is for two and three bedroom apartments.

The development of primary residential property in Kyiv is generally limited by a number of factors, including the extensive approval process for real property construction, relatively low income levels and the relatively high interest rates demanded by commercial banks due to compensate for perceived risks.

## Commercial Real Estate in Kyiv

### Kyiv Office Market

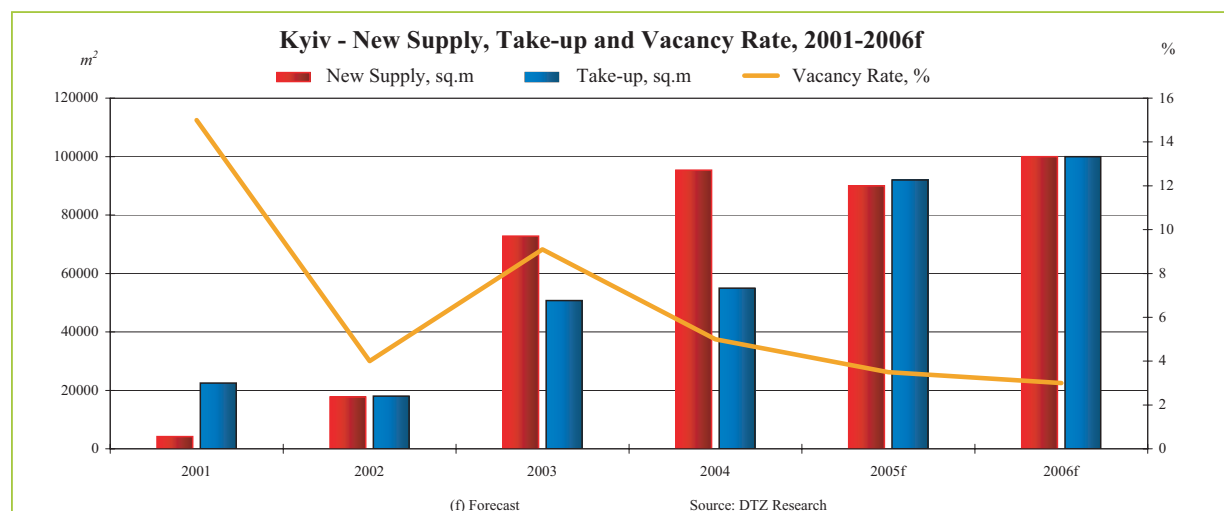
The total amount of office premises in Kyiv as of December 31, 2004, was 342,000 square metres, representing an approximately 39 per cent. increase from the preceding year. According to local real estate experts, demand in this segment will continue to grow and will exceed supply for the next five to seven years. The following table summarises the main characteristics of the Kyiv office market.

	2002	2003	2004	2005 <sup>(1)</sup>	2006 <sup>(1)</sup>
Stock, square metres . . . . .	173,853	246,658	342,000	432,000	532,000
New supply, square metres . . . . .	17,700	72,805	95,330	90,000	100,000
Take-up, square metres . . . . .	18,000	50,718	55,000	92,000	100,000
Prime rental level (US\$/ square metres per month) . . . . .	27.5	23.6	28.0	34.0	40.0
Vacancy rate (%) . . . . .	4.0	7.0	5.0	3.5	4.0

(1) Forecast

Compared to other cities in the region, Kyiv has a relatively low level of commercial real estate. In comparison, Moscow has over 1.4 million square metres of commercial space and Warsaw, which is similar to Kyiv in size, has over two million square metres. On a per capita basis, Kyiv has approximately the same level of inventory as Sofia.

Although the pace of delivery of new office space is increasing, and is forecast to increase further in the coming years, much of the 2005 planned delivery is expected to be deferred to 2006 or later, as developers have consistently failed to meet announced delivery dates. Approximately 90,000 square metres of new office space are expected to be completed in 2005, with class B properties continuing to dominate this new supply.



Demand for quality office space in Kyiv remains strong. In the first quarter of 2005, approximately 40,000 square metres of new office space were leased or sold in Kyiv. Although demand has been generally frustrated by the lack of quality office space, the supply of such space is expected to increase following the gradual stabilisation of the economic situation in Ukraine.

The Kyiv CBD remains the most popular office location due to its greater prestige and the availability of higher quality space. However, due to the scarcity of supply and high prices in the CBD, other non-central locations with good transport are becoming increasingly popular. Additionally, a number of large-scale “business park” developments are planned for delivery in locations outside the centre of Kyiv in the middle-term.

Throughout the first six months of 2005, the office vacancy rate fluctuated from approximately 4.5 per cent. to approximately 7.7 per cent. Growing demand combined with the continued lack of high quality space resulted in increasing rent levels for class A and B space. Most of the new space in this period was class B, resulting in a “landlord’s market” for high-end offices. Typical rental payments for Class A space

were in the region of US\$30 to US\$34 per square metre per month, while rates for Class B space were approximately US\$23 to US\$29 per square metre per month. Rental rates for prime properties in Kyiv are expected to increase further throughout 2006, and demand for these properties is expected to remain strong in 2006 due to the gradually improving business environment.

The majority of demand for large premises came from foreign companies, although the share of Ukrainian office tenants has also been growing. As local companies improve their financial position they look to upgrade to more professional offices. There are still some domestic companies that prefer to buy rather than lease, as a result of rising market prices, which renders an office an investment as well as business premises. These tend to be limited to a few business centres or buildings in central Kiev. The majority of office transactions are still in the 100 to 500 square metre range, with the largest office requirements coming from the services sector. The main business centres that attracted interest from tenants were Forum Business City, Podil Plaza and the International Office and Hotel Centre.

The following table summarises the most significant office space transactions in the Kyiv office space market in 2005.

<b>Address/Business Centre</b>	<b>Location</b>	<b>Lettable Area, sqm</b>	<b>Tenant</b>	<b>Tenant Profile</b>
Ihorivska Street . . . . .	Podil	3,843	Procter & Gamble	Consumer Goods
NEST . . . . .	NC	2,390	Naftogaz Ukrayina	Industrial/Energy
Shchorsa Street . . . . .	Central	1,567	UMC	Information and Communication Technologies
Renaissance . . . . .	CBD	990 <sup>(1)</sup>	Servier	Manufacturing/ Pharma
Artyom . . . . .	Non-central	818	Bank Leader	Financial Services/Banking
Ihorivska Street . . . . .	Podil	776	Telegraaf Magazines Ukraine	Advertising and Media
Forum Park Plaza . . . .	Non-central	720	Sarmat	Consumer Goods
Podil Plaza . . . . .	Podil	644	DuPont de Nemours Int. SA	Manufacturer
Shchorsa Street . . . . .	Central	610	Delta Bank	Financial Services/Banking
Velyka Vasylkivska Street . . . . .	Central	514	Interpipe	Metalworking
Novyi Projyzd . . . . .	CBD	510	Ogilvy & Mather	Advertising and Media
Sichnevoho Povstannya Street . . . .	Central	490	Swiss Pan	Construction and Real Estate
Podil Plaza . . . . .	Podil	406 <sup>(2)</sup>	Samsung Electronics	Industrial/ Electronic

Source: DTZ

(1) Pre-lease.

(2) Expansion of office

The following table summarises the main characteristics of Kyiv's largest business centres:

Address/Name	Year Completed	Lettable Area, sqm	Location	Major Tenants
Forum Business Centre .....	2002/3	21500	Non-central	Adidas Ukraine, Colgate-Palmolive Ukraine, First Lease/Hertz, Motorola, Ericsson, Sanofi Aventis
Podil Plaza .....	2000/3	19800	Podil	Beiersdorf, Cheil Communications, DuPont, IFC, ING Bank Ukraine, Intel, Janssen Cilag, Microsoft, Phillip Morris, Samsung, Sony, Ukrainian National Lottery, 3M
Horizon Office Towers .....	1998	13000	CBD	BBC, Regus, Visa, PepsiCo, Whirlpool, Unilever, Nokia, Maersk, Cisco Systems, Ratiopharm, Euro Steel, General Electric,
Kempa Center .....	1995	12000	Non-central	Furnel, Mannesman Rexrooth, Florian Italia Due, KANEX Krohne, Kodak Ukraine, Elite
45 Urytskoho Street .....	2001	11500	Non-central	E-Consulting, Gaz Ukrainy, Gilat Satellite Networks, Goodyear, Hanner, Hettich Marketing, Unitex Publishing, Renault, Energizer S.A.
Stend Office Centre..	2003	11500	Non-central	
Artyom Business Centre .....	1997	10000	Non-central	British Embassy, IBM, Mary Kay, Renault, Robert Bosch, Yamanouchi, US Embassy
International Office and Hotel Centre....	1993	8000	CBD	Shell, South African Republic Embassy, Embassy of Portugal, Austrian Airlines, Estonian Air, Mitsubishi
Kyiv-Donbas .....	1996	7000	CBD	DHL, Ukgasbank, Deloitte & Touche
Cubic Centre .....	2003	7000	NC	Ukrsibbank, MTI, Yellow Pages Adventus
New Technology ....	2003	6600	CBD	Reiffeisen Bank Ukraine, GlaxoSmithKline, Beiten Burkhardt
Millennium .....	2000	6500	CBD	TNK Ukraine, Naftogaz, WBB, Nafta-Service, Baker & McKenzie
Khreshchatyk Plaza .....	1999	6500	CBD	Golden Telecom, Ernst & Young, Telenor, Radio Liberty, Lundback, Eldorado, Altima
13/5 Ihorivska Street .	2004	4,500	Podil	Procter & Gamble

Source: DTZ

### ***Kyiv Industrial Real Estate***

The commercial industrial and warehouse property market throughout Ukraine remains undeveloped despite the increase in industrial output and business activity, and the subsequent demand from logistics, distribution, retail and production companies. There has been no significant increase in the supply of industrial and warehouse space during the first half of 2005, excluding space constructed by owner-occupiers. The main factors hindering the development of commercial industrial and warehousing space are the lack of suitable sites and the relatively difficult approval process relating to such developments.

However, DTZ believes that, since the beginning of 2005, there has been increased interest among international companies in developing this type of space in Kyiv, and construction is expected to begin soon on two large-scale logistic complexes.

DTZ believes that the quality of available warehousing in Kyiv is generally poor. Approximately 80 per cent. of all warehouses in the City and suburbs can be classified as Class C space, and there is no Class A space other than a small number of build-to-suit production facilities developed by multi-national corporations. Modern facilities, including such features as full-height loading bays or extensive serviceable storage racks, flooring suitable for forklift trucks and other electrical equipment, are rare.

Most industrial property in and around Kyiv still comprises obsolete heavy industry buildings, often on contaminated sites. A few factories and plants exist, which are either modernised facilities or purpose-built facilities constructed by international companies. Based on its market contacts, DTZ believes that only approximately 20 per cent. of the current occupiers of warehouse space are satisfied with their existing facilities, and considerable occupier demand, almost all from foreign companies, exists. As a result of the lack of suitable premises within Kyiv, and the announced intention of the Kyiv authorities to shift industrial complexes outside the City boundaries, warehouses situated in the suburbs on the right bank of the Dnipro River within a 35-kilometre radius and with reasonable road transport are in high demand.

Average rents for higher-quality warehouse facilities vary between US\$6 and US\$12 per square metre per month, depending on the quality of space, terms of storage, type of product and special storage requirements.

According to DTZ, activity within the warehousing market in Kyiv is expected to increase as a result of economic development in Ukraine and additional demand from large industrial and retail enterprises expanding their presences in the country. However, the supply pipeline in the short- to medium-term is forecast to remain insignificant, and no significant warehouse and logistics space is likely to be delivered until 2006 due to the relatively long lead-time required for development in Kyiv.

The following table summarises the characteristics of the principal warehouse and logistics centres in the Kyiv region (existing and under construction).

<b>Retail Centre</b>	<b>Year Completed/Expected Completion</b>	<b>Total Area, sqm</b>	<b>Major Tenants</b>	<b>Developer</b>
Obukhiv Commercial Warehouse .....	2001	9,000	Revival Express	Orange
Obukhiv Commercial Warehouse .....	2004	4,500	Adidas	Orange
Obukhiv Commercial Warehouse .....	2005-2006	10,000	Revival Express	Orange
Kyiv Ring Road Logistics Complex .....	2007	88,000	—	Europolis/HCM Group

### **Hotel Market in Kyiv**

There appear to be two distinct markets for hotels in Kyiv, namely the top range catering to foreign visitors and wealthy Ukrainians from the regions, and lower quality hotels catering predominantly to Ukrainian middle management undertaking business in Kyiv.

#### **High-End Hotel Market**

The overall quality of many of the existing hotels in Kyiv remains below that of international four and five star hotels. To address this, developers have announced the construction of new hotels to be of international standard. Set forth below is information relating to these announced projects.

#### **Recent Hotel Developments in Kyiv**

<b>Name</b>	<b>Class</b>	<b>Address</b>	<b>Number of rooms</b>	<b>Expected delivery</b>
Radisson SAS Kyiv Hotel .....	4*	22, 24a, 24b Yaroslaviv Val St.	255	Completed Q3 2005
St. Sophia Hyatt Regency .....	5*	5 A. Tarasovoyi St.	245	Q2/Q3 2006
Opera Hotel .....	5*	53 B. Khmelnytskoho St.	140	Q4 2005

The 255-room Radisson hotel was recently completed on Yaroslaviv Val. Local developer “Sophia Kyiv”, which is part of the Industrial Union of Donbass group, is expected to complete by mid-2006 a 245-room

hotel on Sophia Square. It is believed that an agreement has been reached for this hotel to be operated by the Hyatt Regency group. In addition, local developer HCM is completing the “Opera Hotel” on Bohdana Khmelnytskoho Street, which is expected to have 140 rooms targeted at business travellers.

DTZ believes that the Hilton, Marriott, and Kempinski hotel chains are also actively seeking sites for the development of hotels in Kyiv.

The Kyiv market includes a number of older, “high-end” hotels, which are basically refurbished former Soviet hotels:

#### Existing Hotels in Kyiv

<u>Name</u>	<u>Address</u>	<u>Number of Rooms</u>	<u>Room Rates, US\$</u>
Dnipro Hotel . . . . .	1/2 Khreshchatyk St.	191	144-242
Nationalnyi Hotel . . . . .	5 Lypska St.	150	186-450
Premier Palace Hotel . . . . .	5-7/29 T. Shevchenka Blvd.	323	400-450
Hotel Rus . . . . .	4 Hospitalna St.	385	120-135
Domus Hotel-1 . . . . .	19 Yaroslavska St.	30	230
Impressa Hotel . . . . .	21 Sahaidachnoho St.	17	175-286
President-Hotel Kyivskyi.	12 Hospitalna St.	341	250-310

The Dnipro Hotel has 191-rooms, including 40 suites, and was built around 1970. The hotel is located on Khreshchatyk Street’s European Square, opposite the Philharmonic Concert Hall and near the main shopping district. Eighty-five of the rooms and suites have recently been refurbished and are of an internationally acceptable standard.

The current standard room rate for a double room for single occupancy is US\$144 per night on weekdays and US\$151 per night on weekends, including tax. A refurbished double room for single occupancy is US\$242 on weekdays and US\$230 on weekends, including tax.

The Nationalnyi Hotel is located in the Pechersk area of Kyiv, one of the most prestigious areas of the City. The hotel’s facilities are among the best in Kyiv and half of its rooms have been refurbished to an international standard. The hotel is primarily used to accommodate important guests to Ukraine and higher-level business visitors. Reservations are primarily handled through official bodies, such as the Parliament, which restricts access to selected guests.

The current room rates at the Nationalnyi Hotel range from US\$186 to US\$326 per night, including tax.

The Premier Palace Hotel was first built in 1908 and is one of the most imposing hotels in Kyiv. It is situated in close proximity to Khreshchatyk Street, the main shopping street in Kyiv, and is well located for business travel. Until 2000 the hotel comprised 254 rooms. However, during 2000 the hotel was completely renovated, and it reopened in March 2001 with 156 rooms, an extensive leisure club, conference rooms, a restaurant and bar. The hotel has been completed to a good quality international standard throughout. Works have recently been completed on a second phase of renovation which has added 167 rooms, further meeting rooms and an additional restaurant.

The current room rates at the Premier Palace Hotel range from US\$400 to US\$450, including tax. The hotel is considered by many to be the best in Kyiv.

The Hotel Rus currently has 385 rooms. It is located on a hilltop overlooking Kyiv and was originally built for the Moscow Olympics. The top nine floors of the hotel have been refurbished to an internationally acceptable standard. The Hotel Rus was, until recently, managed in conjunction with the President-Hotel Kyivskyi, which is located alongside it.

The current standard room rate for single occupancy of a double room at the Hotel Rus is US\$135 per night on weekdays and US\$120 per night on weekends.

The Domus Hotel opened in 1995 and was the first privately owned hotel to be developed in Kyiv. The hotel is located in the Podil area of Kyiv, which is primarily a residential area and is ten minutes from the City centre. The hotel has 30 rooms and the facilities are of a good standard. There is one small restaurant serving Italian cuisine. The current room rate at the Domus for a double room is US\$230 per night, including tax.

The Impressa Hotel is located in the Podil area of Kyiv and is approximately 5 minutes from the City centre. The hotel has 17 rooms and opened in 1996 under Western ownership and management. The rooms are furnished to an international standard and, the hotel has a restaurant and bar. The current room rates range from US\$175 to US\$286 per night.



The President-Hotel Kyivskiy was built in 1990 and is located on a hilltop alongside the Hotel Rus. The hotel currently has 341 rooms. The hotel had recently converted approximately 50 of its rooms into office space due to low occupancy levels. The hotel has extensive banqueting and conference facilities, including a self-contained congress hall. Overall, however, the hotel's facilities are in need of refurbishment.

The current room rate at the President-Hotel for single occupancy of a double room is US\$310 per night, reduced to US\$250 per night in the off-season, including tax.

### ***Lower-End Market***

Kyiv has numerous lower-end hotels which are almost entirely derived from former Soviet hotels. Information relating to some of these hotels is set forth below.

<b>Hotel</b>	<b>Location</b>	<b>Room rates, US\$</b>
Hotel Sport . . . . .	centrally located	65-93
Hotel Lybid . . . . .	centrally located	99-233
Hotel Express . . . . .	centrally located	47-246
Hotel Khreshchatyk . . . . .	centrally located	93-172
Hotel Ukrayina . . . . .	centrally located	66-137
Hotel Myr . . . . .	peripheral to centre	68-208
Hotel Slavutych . . . . .	peripheral to centre	36-115
Hotel Tourist . . . . .	peripheral to centre	78-122
Hotel Boryspil . . . . .	adjacent to airport	25-43

Through its participation in the Kyiv market, DTZ is aware that the Accor hotel chain is actively seeking sites for development in Kyiv. Additionally, IKEA intends to accommodate a 10,000 to 15,000 square metre hotel within its planned megamall complex.

### ***Apartment Leases***

Due largely to the relatively low supply of hotel rooms in Kyiv, coupled with what is perceived to be an expensive market, serviced apartments have become a significant alternative to traditional hotels. Many thousands of apartments are available for daily rent, in all sizes and with different levels of quality. Nightly rates typically range from US\$50 to US\$200 per night.

### ***Source of Demand***

Each segment of Kyiv's hotel segment generally displays unique characteristics relating to factors such as growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements and price sensitivity. As a result, DTZ views the market for transient accommodation as being divided into the following five market segments:

- Segment 1 — Commercial
- Segment 2 — Meeting and Conference
- Segment 3 — Individual Leisure
- Segment 4 — Group Leisure
- Segment 5 — Governmental

HVS International determined the following market demand among these segments, based on its analysis undertaken between 2000 and 2004.

	<b>Marketwide</b>	
<b>Market Segment:</b>	<u>Accommodated Demand<sup>(1)</sup></u>	<u>Percentage of Total</u>
Commercial.....	108,586	75
Meeting and conference.....	4,040	3
Individual leisure.....	3,521	2
Group leisure.....	5,917	4
Government.....	<u>22,773</u>	<u>16</u>
Total.....	<u>144,837</u>	<u>100</u>

(1) Represents number of nights occupied.

According to HVS's analysis, business demand accounted for approximately 75 per cent. and leisure demand accounted for six per cent. of the total demand, indicating that Kyiv remains primarily a business destination. Commercial demand is strongest on Monday to Thursday nights, declining significantly on Fridays and Saturdays, increasing somewhat on Sundays. This demand remains relatively consistent throughout the year, but with some drop-off in the period from November to February, as well as in August when travellers, especially business and conference visitors, take holidays to other destinations.

The meetings and conference segment comprises travellers visiting international and regional conferences, exhibitions, trade shows and similar gatherings in groups of ten to up to several thousand people. Due to Ukraine's continued visa requirements, Kyiv is not yet seen as an attractive destination for international conferences. However, Kyiv may be an attractive destination for national conferences.

## PART IV

### LEGISLATION OF UKRAINE RELATED TO LAND AND REAL PROPERTY

Set forth below is a summary of material Ukrainian legislation relating to real estate.

#### General

Ukraine recognises the private ownership of real estate. Ukraine's Constitution, together with its Civil Code, Land Code and other laws, uphold and protect the right to own private property. Currently the majority of land in Ukraine is not privately owned, but is still held by the State. See "Risk Factors — Risks Related to Ukraine".

The Law of Ukraine "*On Ownership*", dated 7 February 1991, as amended (the "Law on Ownership") specifically recognised private ownership of real property by Ukrainian residents, foreign individuals, foreign legal entities and others. The Law on Ownership specifically permits the use of privately owned property for commercial purposes, including leasing of such property, and permits the retention of revenues, profits and production derived from the commercial use of property. Moreover, the Ukrainian courts are responsible for protecting property rights according to applicable Ukrainian legislation.

Ukrainian law distinguishes between ownership rights with respect to land and buildings. These are treated separately so that, upon the transfer of ownership rights relating to a building, the ownership of the underlying land may or may not also transfer, depending on the agreement of the parties.

#### Legal Developments Affecting Real Estate

On 25 October 2001, the Parliament of Ukraine adopted a new Land Code which came into effect on 1 January 2002. The Land Code introduced into law the general right to own land. Under prior law, only Ukrainian citizens were permitted to own land in Ukraine, and land sale transactions were permitted only under very limited circumstances. The Land Code also permitted the mortgage of privately-owned land.

The Land Code provides for three basic rights with respect to land: (i) the right of permanent use; (ii) lease rights; and (iii) servitudes (i.e., easements). It also classifies land ownership among private and municipal and state ownership. The right of permanent use is only available to enterprises and organisations which are under state or municipal ownership. Accordingly, all individuals and legal entities, who possessed perpetual use rights as of 1 January 2001, were required to re-register their rights as either ownership or lease rights by 1 January 2005. However, this requirement was recently invalidated by the Constitutional Court of Ukraine until the Parliament of Ukraine adopts the implementing legislation required for such re-registration.

Land is divided into various categories based upon its approved use, such as residential, industrial and agricultural. Residential land includes land plots for residential or public use. Industrial land is used for industrial, mining, transportation and other commercial enterprises. Land must be used in accordance with its categorised purpose. Agricultural land is to be used for farming and other agricultural purposes. Under Ukrainian law, land may only be used in accordance with its approved category of use.

Ukrainian legal entities with 100 per cent. foreign ownership (i.e., wholly-owned subsidiaries) are presently prohibited from owning land in private ownership. Therefore, such entities typically create two-tiered structures, whereby the foreign parent company establishes a Ukrainian subsidiary, which, in turn, creates a second-tier Ukrainian subsidiary to hold the property.

#### Leasing of land in Ukraine

All Ukrainian and foreign individuals, entities and states may lease land in Ukraine. The new Land Code establishes two types of land leases: short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law). It also allows subleasing arrangements, subject to the lessor's consent. Land lease relations are regulated in more detail by the Law of Ukraine "*On the Lease of Land*", dated 6 October 1998, as amended (the "Land Lease Law").

According to the Land Lease Law, land lease agreements must be in writing and must contain:

- the subject matter of the lease (i.e., its location and size);
- the term of the agreement;
- the amount of the rent and the terms and means of payment;

- the purposes of the lease;
- the terms of maintenance of the leased property;
- the terms for the transferring of the land plot by the lessor to the lessee;
- the terms for the returning of the land plot by the lessee to the lessor;
- a description of all existing restrictions and encumbrances;
- provisions allocating the risk of damage or loss; and
- liability.

Every land lease agreement is required to be registered with the state authorities.

The original lease term may be extended as many times as the parties desire, provided that they re-execute the lease agreement upon each extension and register the re-executed agreement with the land registration authorities.

The ownership of leased land may not automatically pass to the lessee under the terms of a lease agreement. However, under the Land Lease Law, the lessee has a first refusal right in the event that the lessor seeks to sell the leased property. Under this right, the lessee must pay the price at which the land is offered for sale. If a property is auctioned by the lessor, the lessee's offer must match the highest bid in order for the lessee to be able to exercise its right of first refusal.

Under the Land Code, leased property must be sold by auction if has no immovable property (i.e., buildings or structures) on it. Leased property, owned by the state or a municipality with completed buildings or structures, may, however, be sold without going to a public land auction, and the parties may agree on a market value at which the right of first refusal may be exercised.

Under Ukrainian law, the lessee has a pre-emptive right to extend the lease, provided it has fulfilled all of its obligations under the original lease. However, the Ukrainian courts have held that a lessee has no right to extend the lease in the event that the lessor decides to no longer lease the subject property.

According to the existing practice in Ukraine, land plots may be leased to private entities for specific purposes, such as residential use or the construction of a shopping mall. If the purpose of the land use is changed, the lessee must apply to the State or local authority that granted the original land lease for a change of the designated land use. This requires the lessee to go through the regular land allocation process by filing for the required approvals from the architectural, fire, sanitary, ecological and other authorities.

Under the local regulations in Kyiv, in order to purchase land with buildings or structures located thereon or that is leased to a third party, the purchaser must file an application, including a copy of the land lease agreement and other supporting documentation, with the Kyiv City Council. In the absence of any serious objections from its departments reviewing the application, the Kyiv City Council must approve the sale. Once such resolution is adopted, the Kyiv City Council will instruct the Kyiv City Main Department for Land Resources (the "KyivZem") to prepare a sale and purchase agreement. The sale and purchase agreement must be executed in a notarial form (i.e., a notarial deed). Once the purchaser pays the purchase price for the property, the KyivZem will register the property under the State Act of Private Ownership (the "State Act"), and the certificate of registration will constitute the title document for the property.

If the local authorities (i.e., the Kyiv City Council) resolve to sell the land plot, its value will be determined by a licensed appraiser engaged by the local authorities. This mandatory valuation apply the following valuation methods:

- capitalisation of the net operational (rental) income from the use of the land plot;
- comparing the purchase prices of similar land plots; and
- accounting for the expenses for land improvement.

Under Ukrainian law, land improvements are defined as changes to the characteristics of the land from the erection of buildings, structures and other infrastructure or from the commercial activities or works conducted on the site, including soil improvements and changes to the topography of the land. The purchase price for the land should reflect the degree of land improvements performed by the lessee.

Under the Land Lease Law, the parties to a lease are generally free to determine the amount and timing of the ground rent payments under the lease. however, ground rent relating to land held in state or

municipal ownership must be paid in cash and may not be lower than the land tax for the same land, as calculated in accordance with the Law of Ukraine “*On the Land Tax*”, dated 3 July 1992, as amended. In addition, for such properties, the ground rent may not exceed 10 per cent. of the market value of the particular land plot.

Under Ukrainian law, the amount of the ground rent may be revised by the mutual consent of the parties to the lease. As a matter of practice, the Kyiv authorities determine the ground rent rates depending on the category of use of the land. Ground rent for land within the City limits of Kyiv is calculated as a percentage of the market value of the land. In Kyiv the ground rent rates vary from 0.03 per cent. for residential use to up to six per cent. for commercial use by banks and other financial institutions. However, the absolute amount of the ground rent fluctuates annually based on the updated market values ascribed to the land. Lessees in Kyiv currently are required to pay ground rent in arrears on a monthly basis in equal parts by the 15<sup>th</sup> day of the month following the month in which the ground rent accrued.

### **Leasing of real property other than land (buildings and structures)**

The Civil Code contains general provisions governing the leasing of movable and immovable property. In particular, according to Article 793 of the Civil Code, the lease of a building (or other capital structure) or part thereof must be concluded in writing, and must be notarised and registered with the State if entered into for a period of more than one year.

### **State registration of rights to immovable property and certain transactions**

Ownership rights to real property are perfected upon the registration of the sale and purchase agreement with the State Register of Transactions. In addition to the registration with the State Register of Transactions, the property rights to a building must also be registered with the local Bureau of Technical Inventory, while the property rights to land plots must also be registered with the local Department for Land Resources.

Information concerning encumbrances on real property is contained in the following State registers:

- the Uniform Register of Prohibitions on the Alienation of Real Estate;
- the State Register of Mortgages;
- the Register of Encumbrances of Movable Property (in respect of tax liens); and
- the Land Cadastre.

In the near future, the State Register of Rights to Immovable Property and Their Limitations is expected to come into existence. It will contain consolidated information on all property rights to real estate as well as the limitations of such rights.

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

The principal legislative acts in the area of construction include the Law of Ukraine “*On the Planning and Development of Territories*”, dated 20 April 2000, the Law of Ukraine “*On Architectural Activity*”, dated 20 May 1999, as amended, and the Law of Ukraine “*On City Construction*”, dated 16 November 1992, as amended. In addition, construction activities are governed by resolutions of the Cabinet of Ministers of Ukraine and the rules developed by the Construction Committee. At the same time, the municipal authorities are authorised to develop and approve construction rules (“*pravyla zabudovy*”) setting forth specific procedural requirements regarding construction on the territory of the respective municipality.

Construction on an allocated land plot may only be carried out after obtaining a construction permit. The construction permit must be obtained either by the owner or by the lessee of the land. Obtaining a construction permit is a multistage process, which includes approvals and registrations of the project documentation by a number of governmental bodies, including architectural and urban development agencies, environmental management and protection agencies and governmental bodies for public health supervision. The construction permit is issued for the expected term of construction, but it may be periodically extended for additional one-year periods.

Before the commencement of construction, the owner or lessee should: (i) obtain design input data; (ii) conduct any required pre-project work; (iii) develop and obtain the approval of the relevant state authorities with respect to the proposed architectural design and the construction project documentation; and (iv) prepare working documentation for the construction. Construction project documentation

includes “pre-project documentation” (i.e., economic studies and assessments of the cost of construction) and “project and assessment documentation” (i.e., projects, working projects and working documentation).

The comprehensive state examination of project documentation includes: (i) an investment examination; (ii) a sanitary examination; (iii) an ecological examination; (iv) a fire control examination; (v) a labour protection examination; and (vi) an energy control examination.

After construction, the completed building must be approved by the special state acceptance committee, consisting of representatives of the investor, general contractor, executive authorities, contractors, construction designers, operating organisation, governmental bodies for public health supervision, state fire supervision service, architecture and urban development agencies, environmental management and protection agencies and other state agencies responsible for monitoring the property. Following such approval, the rights to the completed building may be registered with the State. The applicant is entitled to operate the property from the date of the issuance of the commissioning approval.

### **Licensing of Construction Activities in Ukraine**

Under the Law of Ukraine “*On the Licensing of Certain Entrepreneurial Activities*”, dated 1 June 2000, as amended (the “Licensing Law”), construction activities are subject to mandatory licensing. A foreign company seeking to engage in construction work should establish a wholly-owned Ukrainian subsidiary or a joint venture eligible for the receipt of a construction licence. Construction licences are issued for a term of five years. The term of the licence may be extended pursuant to procedures established by the Licensing Law.

### **Liabilities of Owners**

Owners of land plots and buildings must comply with various environmental, public health, fire, residential, urban planning and other requirements of Ukrainian law. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land in accordance with its intended use, not to cause harm to the environment, to assume the liability and financial costs relating to compliance with the various land use standards and not to allow the pollution of, littering on or degradation of the land.

### **Land and Real Property Taxation**

Owners of land and those with permanent rights to use land must pay a land tax, and lessees must pay the ground rent as set forth in the lease agreement. Currently, the land tax is one per cent. per annum of the market value of the land, which is updated periodically. Tax is paid on a monthly basis at one-twelfth of the annual tax amount.

The determination of the market value of the land is carried out by authorised licensing organisations in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine. This methodology accounts for various factors, including, but not limited to, the location of the land and the purpose for which the land is to be used. The valuation of a particular land plot is carried out at least once every five years with respect to agricultural land, and at least once every seven years with respect to non-agricultural land. With each new valuation, the original valuation is adjusted pursuant to a formula adopted by the Cabinet of Ministers of Ukraine.

The market value of land is not uniform across Ukraine and may greatly differ from place to place depending on the factors affecting the valuation. Furthermore, the valuation of land, which is the basis for the computation of the land tax, fluctuates from year to year.

**PART V**  
**OUR MANAGEMENT**

**Directors and Executive Officers**

The present Directors and executive officers of the Company are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lev Partskhaladze . . . . .	34	Chairman
Mykola Yerzhakhovskyy . . . . .	34	Director and Chief Executive Officer
Taras Kutovyy . . . . .	29	Director and Chief Financial Officer
Andriy Myrhorodsky . . . . .	44	Director and Vice President
Jaroslav Kinach . . . . .	60	Director
Mark Holdsworth . . . . .	34	Director
Maxim Belous . . . . .	34	Head of Market Research

**Lev Partskhaladze** is the founder and Chairman of the Company. Mr Partskhaladze opened Kyiv’s first fashionable Ukrainian-theme restaurant in 1996 and expanded this concept into a chain of high-end restaurants and fast-food outlets. In 1999, Mr Partskhaladze developed Ukraine’s first underground shopping centre in downtown Kyiv. In 2004, he received the “Honorary Economist of Ukraine” and “Entrepreneur of the Year 2004” awards. He is an elected member of the Kyiv City Council and sits on the Committee for Municipal Development and Architecture and on the Mayor’s Coordinating Council on Entrepreneurship and Business Development. Mr Partskhaladze received a degree in organisational management from Kyiv’s European University.

**Mykola Yerzhakhovskyy** is a Director and Chief Executive Officer. Prior to joining our Group in 2002, he was chief legal counsel with Alfa Capital Ukraine, the Ukrainian investment arm of Russia’s Alfa Group. Mr Yerzhakhovskyy began his career as a senior lawyer with Ukraine’s securities market regulator, the Securities and Stock Market Commission of Ukraine. Mr Yerzhakhovskyy holds a degree in law from Kyiv National Shevchenko University.

**Taras Kutovyy** is a Director and Chief Financial Officer. Prior to joining our Group in early 2004, he was finance director with the Soros Foundation. Mr Kutovyy holds a degree in international economics from Kyiv National Economics University and a Master of Business Administration degree from Kyiv’s International Management Institute.

**Andriy Myrhorodsky** is a Director and Vice President, overseeing our capital projects and developments. Prior to joining our Group in 1995, he operated his own architectural company. From 1984 to 1992, Mr Myrhorodsky worked for Kyivproekt, an architectural firm, and in 1990 won a competition to design the “Russian Centre” in Madrid. He is also an elected member of Kyiv City Council. Mr Myrhorodsky holds a degree in architecture from the Kyiv Engineering-Building Institute.

**Jaroslav Kinach** is a Director. Prior to joining our Group in 2003, he was Advisor to the Prime Minister of Ukraine. From 1995 to 1999, Mr Kinach was Ukraine Country Head of the European Bank for Reconstruction and Development. Prior to joining the EBRD, he worked for more than 20 years with Canada’s Toronto Dominion Bank in several roles related to corporate and international finance. Mr Kinach holds a Master of Business Administration degree from the Graduate School of Business of Columbia University in New York.

**Maxim Belous** is the Head of Market Research. Prior to joining our Group in 2003, Mr Belous held a number of positions with the Kyiv office of Colliers International, where he worked for five years. He is licensed by the State Property Fund to perform property appraisals. Mr Belous holds a Master of Arts degree in international economics from Kyiv National Shevchenko University and a degree in engineering from the Institute of Engineering and Construction.

**Mark Holdsworth** is a non-executive Director, having joined our Group in December 2005. He is currently Managing Director of Fabian Capital Ltd., a specialist Eastern European fund management company which he co-founded. Through Fabian Capital, Mr Holdsworth raised the first dedicated property fund for Romania. Prior to establishing Fabian Capital, he spent eight years with ING, most recently as Managing Director of its emerging European and Latin American equities business. He is also a member of the supervisory board of Netia S.A., the Warsaw listed telecoms provider. Mr Holdsworth holds Master of Arts degrees from the University of Edinburgh and the University of Pennsylvania.

## **Corporate Governance**

The Company is not subject to the requirements of any national corporate governance rules, including the Cypriot Code on Corporate Governance, as it is not listed in Cyprus. The Company does not currently comply with the Cypriot Code on Corporate Governance, although it will seek to fully comply with the code in the near future. The primary reason for the current non-compliance is the absence of a sufficient number of independent non-executive Directors on the Board of Directors and/or the various sub-committees which the Board has established. The Directors have appointed one independent director and are seeking additional independent directors.

The Company is not subject to, and will not comply with, the UK combined code on corporate governance issued by the Financial Reporting Council in July 2003 (“Combined Code”).

The Directors are responsible for formulating, reviewing and approving the Company’s and its subsidiaries’ strategies, budgets, certain items of capital expenditure and senior personnel appointments. The Directors have established audit, remuneration, nomination and executive committees, as described below, and will utilise other committees as necessary in order to ensure effective governance.

The initial members of the audit committee are comprised of three Directors. The audit committee is chaired by an independent non-executive Director. The audit committee’s responsibilities include, among other things, reviewing the Company’s financial statements, accounting policies, and internal controls and overseeing its relationship with its external auditors.

The initial members of the remuneration committee are comprised of three Directors. In the future, at least one member of the remuneration committee will be an independent non-executive Director. The remuneration committee’s responsibilities include, among other things, determining the Company’s policy on remuneration; however, no director or manager will be directly involved in any decisions as to his own remuneration.

The initial members of the nomination committee are comprised of three Directors. In the future, at least one member of the nomination committee will be an independent non-executive Director. The nomination committee’s responsibilities include, among other things, reviewing the composition of the Company’s board and making recommendations to the board with regard to any changes.



**PART VI**  
**OUR MAJOR TENANTS**

Our Kvatrats rely on anchor tenants. These tenants occupy approximately 60 per cent. of the rentable space within Kvatrat Lukyanivka and approximately 50 per cent. of the rentable space within Kvatrat Borschahivka. Information relating to each of our anchor tenants is set forth below.

- **Silpo.** Silpo occupies 1,780 square metres in Kvatrat Lukyanivka and 3,370 square metres in Kvatrat Borschahivka. Both of its leases for these premises expire at the end of 2006. Silpo is a leading supermarket chain with 40 stores across Ukraine. Silpo supermarkets are self-service stores carrying 6,000 to 12,000 products per store.
- **Antoshka.** Antoshka occupies 1,273 square metres in Kvatrat Lukyanivka. Its lease for the premises expires in November 2006. Antoshka is a children's clothing and toy store chain with outlets in 16 Ukrainian cities, including two stores in Kyiv.
- **DC.** DC occupies 440 square metres in Kvatrat Borschahivka. Its lease for the premises expires in October 2006. DC is one of Ukraine's largest cosmetics and chain stores. Founded in 1997, DC has expanded its operations to include 76 stores in 22 cities throughout Ukraine.
- **Kosmo.** Kosmo occupies 175 square metres in Kvatrat Lukyanivka. Its lease for the premises expires in June 2006. Kosmo is part of a well-known Ukrainian chain of self-service cosmetics stores, with approximately 30 outlets in Kyiv, Donetsk and Mariupol.
- **Multi.** Multi occupies 455 square metres in Kvatrat Lukyanivka and 378 square metres in Kvatrat Borschahivka. Its leases for these premises expire in November 2006 and October 2006, respectively. Multi is a Russian chain of gift stores, which has recently started its expansion into Ukraine. Multi currently operates four stores in Kyiv, offering a wide range of gifts, souvenirs and accessories.
- **Domotechnika.** Domotechnika occupies 1,400 square metres in Kvatrat Borschahivka. Its lease for the premises expires in October 2006. Domotechnika is a major store chain offering a full range of household appliances, furnishings and domestic electronic goods with 13 stores in Ukraine.
- **Sela.** Sela occupies 210 square metres in Kvatrat Borschahivka. Its lease for the premises expires in October 2006. Sela is a clothing chain store.

Rental rates for our anchor tenants vary from UAH 23 (US\$4.6) to UAH 296 (US\$58.6) per square metre, net of VAT. All of the leases contain a provision allowing the extension of the lease for the same term on the basis of a prior 30-days written notice.

## **PART VII**

### **DTZ PROPERTY VALUATION REPORT**

This section contains DTZ's Valuation Report relating to our properties. As noted in the report, DTZ has assigned a value to each of these properties based upon its assumptions as to the expected highest and best use of the property by a typical Ukrainian developer, including the amount a local developer might be expected to pay for the properties in their current state. Accordingly, these valuations are not based in all instances on our planned use of these properties.

The valuations included in the DTZ Report should not be taken as an indication of the proceeds that we could achieve from the sale of any of our properties. In addition, the use of different assumptions or valuation models may result in differences in the valuation of some of these properties. The assumptions used by our management in developing the properties differ in certain material respects from those used in the DTZ Report. For instance, with respect to certain properties DTZ assumes a smaller scope of project than we have planned. The DTZ Report also considers each property in isolation, and does not consider potential economies of scale relating to the simultaneous development of multiple properties. We also assume that certain levels of indebtedness will be incurred in connection with the development of the properties, while the DTZ Report values our properties on an unleveraged basis.

Whilst DTZ has adopted average market cost of capital and anticipated average required market rates of return as discount rates, the Company may have access to a wider group of local and international equity and debt investors than the typical developer active in Ukraine, and could potentially raise financing at lower cost than the average cost of capital for the Ukrainian market, with the result that the valuations indicated in the DTZ Report may be lower than those expected by us.

**PROPERTY VALUATION REPORT**

**prepared for**

**XXI CENTURY INVESTMENTS PUBLIC LIMITED**

**in respect of**

**VARIOUS REAL ESTATE ASSETS**

**in**

**KYIV, UKRAINE**

11<sup>th</sup> November 2005

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The Directors  
XXI Century Investments Public Limited  
Hrushevskogo Street  
01001  
Kyiv  
Ukraine

*For the attention of Taras Kutovyy — Chief Financial Officer*  
11<sup>th</sup> November 2005

Dear Sirs

**PROPERTY VALUATION AS AT 11<sup>th</sup> NOVEMBER 2005**  
**VARIOUS PROPERTIES TOGETHER KNOWN AS “THE PROJECT SUNRISE PROPERTIES”**  
**(“THE PROPERTIES”)**  
**XXI CENTURY INVESTMENTS PUBLIC LIMITED (“THE COMPANY”)**

In accordance with your instructions dated 26<sup>th</sup> August 2005, we have pleasure in reporting to you as follows:

**1. SCOPE OF INSTRUCTIONS**

We, DTZ Kiev B.V. (“DTZ”), have undertaken a net asset valuation for each property as set out in the Appendix.

The properties are listed as follows;

SCHEDULE 1 — Properties Held as Investments

“Kvadrat Lukyanivka” at Biloruska, 2a, Kyiv

“Kvadrat Borschahivka” at Hnata Yury, 20a, Kyiv

SCHEDULE 2 — Properties in Course of Development

“Capitoliy” at Khreschatyk, 27b, Kyiv

“Parus” at Melnykova, 18a, Kyiv

SCHEDULE 3 — Properties Held for Development

Luteranska, 14v, Kyiv

“Posolsky Dvir” at Lavrsky, 9, Kyiv

Yaroslaviv Val, 15a, Kyiv

“Hetman” at Klovsy Uzviz, 6a, Kyiv

Kyianivsky, 13-21, Kyiv

Voznesensky Yar, Kyiv

Lypska Street, 19a, Kyiv

“Kvadrat Perova” at Perova Boulevard, 36, Kyiv

“Kvadrat Lisova” at Popudrenka, 50, Kyiv

“Kvadrat Balzaka” at Onore de Balzaka, 91/29a, Kyiv

“Kvadrat Myloslavska” at cross of Myloslavska and Mayakovskoho, Kyiv

“Vyshhorod” at at Novi Petrivtsi Village, Vyshhorodsky

“Virlytsia” at Prospekt Bazhana, Kyiv

SCHEDULE 4 — Potential Future Development Opportunities

Verkhnia, 4, Kyiv

Tolstoho, 31, Kyiv

Kruty Uzviz, 4, Kyiv

We have been instructed to prepare this Valuation Report for inclusion in an Admission Document (“XXI Century Investments Public Limited Offering Memorandum”) concerning the proposed placing and offer of Ordinary Shares in the Company on the Alternative Investment Market of the London Stock Exchange.

The effective date of each valuation is 11<sup>th</sup> November 2005.

We confirm that the valuations have been made in accordance with the appropriate sections of the Practice Statements and Guidance Notes contained within the RICS Appraisal and Valuation Manual (the “Manual”), issued by the Royal Institution of Chartered Surveyors (the “RICS”) and that they 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 preparing this report, we have complied with the requirements contained within the provisions of Chapter 18 of the UK Listing Authority’s Listing Rules (the “Listing Rules”), regulated by the Financial Services Authority.

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuation.

In accordance with RICS guidelines, we must disclose that DTZ has had historic and also ongoing involvement with XXI Century Investments Public Limited, which you are aware of. However, these instructions are in relation to our normal course and field of business and we do not consider that they have any impact on this instruction. The Company has confirmed this.

## **2. BASIS OF VALUATION**

### ***Bases/basis of valuations***

Our opinion of the Market Value of each of the properties has been primarily derived using comparable recent market transactions on arm’s length terms, and an estimate of the future potential net income generated by use of the properties because of their specialised nature means that there is no market based evidence available.

In accordance with your instructions, we have undertaken our valuations on the following bases:

#### **a. Market Value**

In preparing our valuation on this basis it is necessary for us to prepare valuations on 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 above Special Assumptions 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 appendices I and II. Where appropriate, the Company has confirmed that our Assumptions are correct so far as they are aware. In the event that any of our Assumptions prove to be incorrect, our valuations should be reviewed and modified as required.

Each property is defined in three distinct categories: held as an investment; held for development; or is in the course of development and has been valued as instructed and 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 some copies of the title deeds of land and buildings and have based our valuation upon the existence of these documents. We also assume that no other documents exist which may invalidate or otherwise weaken the strength of these documents. We have not been provided with all

copies of tenants' occupational leases and, for those premises held as investments, valuations have been based on the information which the Company has supplied to us in the form of tenancy schedules.

We understand that each property is either held by the Company, its subsidiaries, or jointly with third parties. 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. It should however be noted that with a number of properties, 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 developments to the City authorities. Where such disparity exists, we have reflected this in the value of the interest of the Company.

A number of properties are held leasehold on ground leases from Kyiv City Authorities. The standard terms of these leases are that rents are reviewed annually (upwards or downwards) in accordance with a City-wide formula that is set by the Kyiv City Authorities.

It should be noted that land leases are effectively non-transferable in Kyiv. As each lease is however held by a special purpose vehicle company 'SPV', we therefore value each lease on the special assumption that the shares in each company can be sold and, that no other assets or liabilities are held by that company that might affect the ability for the sale of shares. Some SPV's do however hold the leases of multiple properties and, we have taken cognizance of the fact that the sale of one of these properties would, *de facto*, require the sale of all other properties held within that SPV to the purchaser. This may adversely affect the general liquidity of some assets.

Whilst in Kyiv the lessee of a ground lease has a priority right to renew the lease upon expiry, on the same terms and conditions, you should be aware that the effectiveness of the Term Extension Right Clause 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.

We would caution that a number of the land leases are held for relatively short terms and place an obligation upon the lessee to complete development by a prescribed date. Whilst the leases provide a 'use designation' of the land, the lessee is still required to obtain from the City Authorities a 'Project' which confirms the architectural, planning, engineering and other requirements of development. Where a property is either "*currently in the course of development*" or "*held for future development*" 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 permission will be forthcoming without material cost or delay.

In the event that the lessee has not completed development by the 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 City 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 city could adversely affect the grant of these 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 special assumption that no such delay or prevention will occur and, if necessary, short-term leases will be extended / renewed by the City 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.

A number of leases require the provision of facilities or granting of space within the completed development, free of charge to the city authorities / neighbours as a means of compensation for loss. Where this is the case, we have made provision for this in our valuation calculations.

It should be noted that following the appointment of President Yushenko in early 2005, a number of land transactions undertaken under the former government have been investigated and occasionally transfers have been found to have been illegally granted and, the transactions deemed void with the State reclaiming the land. Whilst it is noted that a number of the land leases have been granted under the tenure

of the last President, we are not aware that any of the sites have been or are being placed under investigation. The Company has verbally confirmed that no such investigations have been instigated nor are they expected.

Unless disclosed to us to the contrary and recorded in the Appendix, each valuation is on the basis that:

(a) the 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 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 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 of all accommodation which is unlet.

We have been requested by the Company to report our opinion of value upon some land sites to which the Company presently have no alienable title. These sites are subject of decisions of the Kyiv City authorities to transfer interest in the properties, however at present these interests have not been granted. We have assessed the value of these sites assuming that a land lease is granted on normal terms entitling development of the land. These values are not however reflected in our stated Market Value and are provided in a separate schedule. These market values can be regarded as indicative only and cannot be relied upon for lending purposes as ultimately land leases of these sites may not be granted or, that any lease granted may contain onerous conditions.

#### **4. NET ANNUAL RENT**

The net annual rent for each property is referred to in the appended Schedules. Net annual rent is defined in the Listing Rules 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 formal searches, but have generally relied on guidelines provided under the Kyiv City 2020 structure plan, information provided by the Company and the project documentation (where in existence).

The planning and approvals process in Kyiv is extremely bureaucratic and fraught with uncertainty. There are a number of preliminary planning approvals necessary in order to receive a land lease and following the granting of the lease, it is necessary to obtain the approval of a “Project” through the department of Architecture and Urban Planning. Following these approvals, confirmation of technical conditions from the main utility providers, fire, health and safety, environmental protection and sanitary departments of the city is required. The project provides the basis upon which a formal planning approval may be sought and outlines the necessary contributions and technical requirements required by the utility providers.

We have not been provided with Project documentation for a number of development sites and accordingly make what we consider to be reasonable provisions within our calculations for the time taken to ‘receive’ the Project, and the likely costs / contributions necessary 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 is on the basis that the property has been erected 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 is on the basis that each property is not affected by proposals for road widening, compulsory purchase, planning inquiry, or archaeological investigation. We would emphasise that two of the development sites are within archeological and historical areas and, whilst we assume that development will be allowed, we have made provision for a longer process for development taking into account possible planning inquiries and archaeological investigation.

It is stressed that under Ukrainian 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 the works to be carried out.

It is apparent that some of the completed buildings differ from the project documentation provided to us. In case of unauthorized construction, the property owner may be subject to penalties provided under the Law of Ukraine “On Responsibility of Companies, Organizations, and Enterprises for Violations in the Area of Construction” dated 14 October 1994 (the fee in such case can amount to a maximum 50% of the costs of the reconstruction works).

We consider the risk of such penalties to be low, and the unapproved construction of premises object *de facto* does not affect the usage of the property. However, we caution that transactions which are subject to notarization (selling, leasing for more than one year, mortgage etc) may be prevented as notarization requires the issue by the State Bureau of Technical Inventorisation of a certificate for the premises confirming that the premises are in the condition as indicated in the Certificate for the Right of Ownership and BTI Technical Passport. This compliance does not exist presently on some buildings.

Where no project exists, each valuation assumes that all required planning permission consents will be received within a normally acceptable timescale and that there are no such 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 business plan to develop 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 program.

## **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 is on the basis that buildings that have been constructed, have appropriate regard to existing ground conditions. Where the property has development potential, our valuation is on the basis that there are no adverse ground conditions which

would affect building costs. However, where you have supplied us with a building cost estimate, we have relied on it being based on full 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**

Where the interest held in the property is freehold, usual landlord's fixtures such as lifts, escalators and central heating have been treated as an integral part of the building and are included within the asset valued. Where the interest held in the property is short leasehold (<50 years), these items have been treated as belonging to the landlord upon reversion of the lease.

Process-related plant/machinery and tenants' fixtures/trade fittings have been excluded from each valuation.

## **9. INSPECTIONS, AREAS AND DIMENSIONS**

We have inspected each property internally, and externally from ground level on dates between 20 September 2005 and 13 October 2005. 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. Any references to the age of buildings are approximate.

In relation to a number of the land sites, 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 information of which we are aware, we have not received a formal report on the financial status of the tenants. We have not been supplied with any information to indicate that there are material arrears or that the tenants are unable to meet their commitments under the leases. Each valuation is on the basis that this is correct.

Where we have reflected development potential in a valuation, we have assumed that all structures at the property will be completed using good quality materials and first class workmanship and that the development scheme will let to tenants who satisfy the tenant mix policy and are of reasonable covenant status and on typical market lease terms.

No allowances have been made for any expenses of realisation arising from a sale or development of each property.

Each valuation does not make allowance either for the cost of transferring sale proceeds internationally or elsewhere within the Company, or for any restrictions on doing so.

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 each property. Where a grant may have been received, no allowance has been made in our valuations for any requirement to repay the grant.

A purchaser of a property is likely 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 N.M.A Cotton, B.Sc. MRICS.

DTZ strongly recommend that no disposal of any property should be undertaken without proper exposure to the market. 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 Special Assumptions or 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 9 above 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.

During 2005 DTZ have acted as consultants in relation to the formulation of a concept for the development of the Virlytsia Lake Project. Our involvement in this scheme has included the analysis of the highest and best use of part of the site.

DTZ have from time to time provided other professional or agency services to the client and have done so for a period of less than 5 years.

## 14. DISCLOSURES REQUIRED UNDER THE PROVISIONS OF UKPS 5.4

**NMA Cotton has been the signatory of the above valuation reports provided to the company.**

**DTZ Kiev B.V. ('DTZ') 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 to the total fee income is less than 5%, and we anticipate that it will remain less than 5% in the financial year to 31<sup>st</sup> December 2005.

Although this part of the circular should be read in conjunction with all the information set out, 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 are set out in the Appendix below.

## 15. AGGREGATE VALUATION

Subject to the foregoing, and based on current values as at 11<sup>th</sup> November 2005, DTZ are of the opinion that the aggregation of the Market Value of each 100% share of each freehold and leasehold interest held by the Company (albeit through the shares of special purpose vehicles) in each property, as set out in the Appendix is the total sum of:

**US\$271,868,000 (Two hundred and Seventy One million Eight Hundred and Sixty Eight Thousand US Dollars).**

This sum may be apportioned as follows:

	<b>Freehold</b>	<b>Leasehold</b>
(i) Properties held as investments .....		US\$28,770,000
(ii) Properties in the course of development .....		US\$14,200,000
(iii) Properties held for development .....		US\$228,898,000
<b>Total</b> .....		<b>US\$271,868,000</b>

The valuation stated above specifically excludes the values stated for those properties in Schedule 4 as being potential future development opportunities.

The valuation stated above represents the aggregate of the current value 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 Appendix. DTZ has based its valuation of the properties described in this report on assumptions as to the expected highest and best use of each property by a typical local developer in Ukraine, considering the spectrum of available uses. As a result, the description of each of the projects, and the accompanying valuation, reflects our reasonable

expectations as to what a typical Ukrainian developer may build on the property, as well as the amount that such a developer would likely pay for the project in its current state. Our valuations are not based on the Company's planned use of the properties, and we do not make any judgement 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 circumstance. 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.

The Summary Valuation Schedule reflects DTZ's opinion of Equity IRR (i.e. discount rate) on an un-leveraged basis as used in the Market Valuation for each property. This discount rate is calculated on the assumption that each property would be held upon development completion and that no debt is used (see "Global Assumptions—Debt Assumptions" below).

Whilst we have adopted average market cost of capital and anticipated average required market rates of return as discount rates, the Company may have access to a wider group of local and international equity and debt investors than the typical developer active in Ukraine, and could potentially raise financing at lower cost than the average cost of capital for the Ukrainian market, with the result that the valuations indicated in our report may be lower than those expected by the Company.

For those *Properties held for Development* and *Properties in the Course of Development*, that will be leased upon completion the Summary Valuation Schedule and individual property schedules present our opinion of *Market Value assuming built and fully occupied* and our opinion of *Market Rental Value per annum upon completion*.

In respect of those *Properties held for Development* and *Properties in the Course of Development* that are intended to be sold with vacant possession upon development completion, these entries are shown as "n/a".

## 16. CONFIDENTIALITY

The contents of this Valuation Report and Schedule may be used only for specific purpose to which they refer but can 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 Transaction/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 and/or Departures referred to herein. For the avoidance of doubt such approval is required whether or not DTZ Kiev B.V. are referred to by name and whether or not the contents of our Valuation Report are combined with others.

Yours faithfully



For and on behalf of DTZ Kiev B.V.  
Nicholas M.A. Cotton B.Sc. MRICS  
Regional Director

## **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 and they shall apply unless specifically mentioned otherwise in the foregoing.

#### ***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 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 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 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 have reviewed documents of title and development permission as provided to us by The 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).

#### ***Tenant's Covenant Strength***

We do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market's perception of them. Any comments on covenant strength should therefore read in this context. Furthermore, we assume, unless otherwise advised, that all tenants are capable of meeting their financial obligations under the lease and that there are no material arrears or undisclosed breaches of covenant.

#### ***Inspections***

We undertake such inspections and conduct investigations as are, in our opinion, correct in our professional judgement, 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 Kiev.

### ***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 have assumed 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 the 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.

### ***Plant & machinery***

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.

***Aggregation***

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 Ukraine.

## **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:

#### ***Acquisition Cost***

No acquisition costs are included in the calculation.

#### ***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. Two sites have potential to be developed for hotel use. The hotel market in Kyiv is extremely immature and no market evidence exists to support the assessment of land values for this intended use. Accordingly we have assumed a highest and best use analysis of these sites for residential development.

#### ***Utilities & Road Improvement***

In Ukraine, 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***

Most projects have been assumed to be constructed in one phase. Due to the size of the Virlytsia Lake project and, the relatively small level of office stock in Kyiv, it has been assumed that it would be phased and that the phasing would be designed to maximise the returns from the site. The Vyshhorod warehouse scheme has also been phased due to the extremely immature market for warehousing in Kyiv.

#### ***Construction Costs***

Construction costs have been assessed in accordance with standard rates in the market and assume rates that a third party developer/purchaser would be expected to incur in the course of the development of each project.

#### ***Construction Contract***

An advance payment is included in the cost calculations, which is charged to the first quarter of the construction contract. A hold-back against defects requiring remedy is also included and is charged to the quarter after completion of construction of the relevant phase.

#### ***Permit & Contribution Costs***

Where there are outstanding permit costs or contributions to the City, these have been assessed in line with the anticipated numbers as supplied by the Company. Where we have made our own estimates, these have been based upon general experience in this market.

#### ***Assumed Sale***

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 stabilizes, and that the property is then sold. This is a valuation technique and does not necessarily represent the intention of the owner.

#### ***Delivery Condition and Pricing***

A number of the properties comprise ongoing developments or properties held for development of residential apartment complexes. In Kyiv, 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 typically commanding higher prices as opposed to the European norm of values based on an apartment size / room number basis.



Office premises in Kyiv are typically delivered in a finished open plan condition with retail space being delivered in a shell and core condition. All commercial space is 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 day 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 weight of money seeking investment product in the region will have a downward pressure on returns.

### ***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 assumed length of initial leases varies depending upon the property class. Office leases are typically 3-5 years, retail leases are typically 1-3 years for shop units and up to 10-15 years for superstores.

### ***Vacancy Rate***

Vacancy has been assumed for the duration of each project and depends 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 cash flow analysis. An element of the non-recoverable service charges are however accommodated 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 Ukrainian 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 20%. The VAT rate is of importance because although in theory VAT in Ukraine 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 the project 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 a Special Purpose Vehicle 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 agents fees will not be incorporated in these elements of the valuation.

### *Taxes*

Property tax is not presently payable in Ukraine. However, a proposal is presently before Parliament to introduce a tax based on 1% of the book value of commercial premises held as investments and, given the clear support of the President, DTZ expect this tax to be introduced during 2006. Accordingly, we have made provision in our calculations to accommodate this charge from 1<sup>st</sup> January 2007.

**APPENDIX III**  
**VALUATION SCHEDULES BY PROPERTY / PROJECT**

**SCHEDULE 1 — PROPERTIES HELD AS INVESTMENTS**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES</u>	<u>NET ANNUAL RENTS RECEIVABLE</u>	<u>MARKET VALUE</u>
<p>Property 1                      “Kvadrat Lukyanivka” at Biloruska, 2a</p>	<p>This property comprises a retail centre constructed in 2002/3 and is located above a metro station. It has 7 floors, of which 5 floors are above ground. The building is owned by company “LLC Soyuz-Inform” through a Certificate of the Right of Ownership dated June 2004. The property of gross area 9,194 sq m provides approximately 6,166 sq m of retail space, with some ancillary storage space and administration accommodation. The centre is considered to be secondary retail and targeted at metro commuters, offering a high number of small low end ‘boutique’ outlets.</p> <p>The property is subject to an historic investment agreement through which the Company were only entitled to 85% of lease revenues. However, we are informed that The Company now has entitlement to 100% of the net revenues from the property and, have therefore valued upon this basis.</p> <p>The building is located on land held by “LLC Soyuz-Inform” through two separate land leases covering a site area of approximately 3,553 sq m. The land rent, which is a fixed percentage of the site value, is currently US\$34,100 per annum, with annual indexation.</p>	<p>The property is subject to a number of occupational tenancies, let to a range of tenants, none of which have international status.</p> <p>The tenants are typified as being small individual operators leasing ‘boutique’ type outlets targeting metro commuters.</p> <p>Most leases are for one year periods however, occupancy remains at around 100%.</p> <p>The key tenants are Silpo Food supermarket and “Antoshka” Children’s goods store, which act as anchor tenants.</p>	<p>\$2,437,000</p>	<p><b><u>\$13,160,000</u></b></p>

**PROPERTIES HELD AS INVESTMENTS (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES</u>	<u>NET ANNUAL RENTS RECEIVABLE</u>	<u>MARKET VALUE</u>
Property 2 “Kvadrat Borschahivka” at Hnata Yury, 20	<p>This property comprises a retail centre constructed in 2003 within a densely populated low-middle grade residential district. The centre extends to 5 floors, of which 4 floors are above ground. The building is owned by company LLC “Kvadrat Hnata Yury” through a Certificate of the Right of Ownership dated June 2004.</p> <p>The property has a gross area of 15,336 sq m, with approximately 11,845 sq m of retail, storage and office space. The centre is considered to be secondary retail and targeted at the local population.</p> <p>The property is located on a site area of approximately 11,422 sq m, and has a 15 year lease from September 2003 to LLC “Kvadrat Hnata Yury”. The land rent, which is a fixed percentage of the site value, is indexed annually and is currently US\$18,000 per annum.</p>	<p>The property is subject to a number of occupational tenancies, let to a range of tenants, none of which have international status. The tenants are typically medium sized Ukrainian retail chains and small individual operators targeting the local population. The majority of leases are for one year periods. However, occupancy remains at around 100%. The key tenant is a “Silpo” supermarket, which is the anchor tenant for the centre.</p>	\$2,625,000	<u>\$15,610,000</u>
<b>SUB TOTAL — INVESTMENT PROPERTIES</b>			<b>\$5,062,000</b>	<b><u>\$28,770,000</u></b>

**SCHEDULE 2**

**PROPERTIES IN THE COURSE OF DEVELOPMENT**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COMPLETION DATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>MARKET VALUE WHEN COMPLETED</u>
Property 3 “Capitoliy” at Khreschatyk, 27b	<p>This property comprises an apartment complex intended to provide 13 above ground floors and 2 underground floors and is due to be completed in December 2006. The intended development is considered as elite and falls within a highly desirable residential area.</p> <p>The gross area of the complex will be 14,528 sq m providing a saleable area of 11,679 sq m plus 69 saleable car parking spaces. The lower above ground spacing levels will provide commercial amenity areas. An investment agreement entitles Kyiv City to 15% of the saleable area. However, the Company remains liable for 100% of the construction costs. We assume that Kyiv City will elect to take the higher value upper floors. Our valuation reflects this partial entitlement / full liability imbalance.</p> <p>The land of 2,354 sq m is held by way of leasehold from the City of Kyiv for two and a half years from 25<sup>th</sup> September 2003. As the projected completion date is beyond the lease end date, we assume that the lease will be extended and, ongoing completion of the development will not be frustrated. Upon completion of the building, perpetual rights of use of the land will be secured. The present ground rent is equivalent to US\$6,085 per annum.</p> <p>Although the property is in the early stages of construction, 2,976 sq m of the lower levels plus 16 parking spaces have been pre-sold. The value of the pre-sold premises are therefore not reflected in the stated value; however, the necessary costs of delivery of these apartments are reflected.</p>	<b><u>\$9,300,000</u></b>	December 2006	\$5,750,000	\$18,400,000

**PROPERTIES IN THE COURSE OF DEVELOPMENT (CONTINUED)**

<b>ADDRESS</b>	<b>DESCRIPTION, AGE AND TENURE</b>	<b>MARKET VALUE IN EXISTING STATE</b>	<b>ESTIMATED COMPLETION DATE</b>	<b>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</b>	<b>MARKET VALUE WHEN COMPLETED</b>
Property 4 "Parus" at Melnykova, 18a	<p>This property comprises an apartment complex intended to provide 22 above ground floors and 2 underground floors and is due to be completed in December 2007. The intended development is considered as middle to upper grade and falls within developing area of mixed residential and commercial use.</p> <p>The gross area of the complex will be 43,151 sq m providing a net area of 29,127 sq m in addition to 176 saleable car parking spaces. The lower above ground levels will provide commercial amenity areas as well as a non-commercial school area, local 'Zhek' premises and technical areas. The lease stipulates that 10% of the commercial space must be given back to the City.</p> <p>The land of 4,376 sq m is held by way of leasehold from the City of Kyiv for three years from 12<sup>th</sup> April 2004. We assume that the lease will be extended and ongoing completion of the development will not be adversely affected. Upon completion of the building, perpetual rights of use of the land will be secured. The present ground rent is equivalent to US\$4,850 per annum.</p> <p>Although the property is in the early stages of construction, 615 sq m of development have been pre-sold. The value of the pre-sold premises are not reflected in the stated values however, the necessary costs of delivery of these apartments are reflected. The net area available for sale after deduction of the non-commercial area, City contribution and sold apartments will be approximately 21,650 sq m.</p>	<b>\$ 4,900,000</b>	December 2007	\$23,450,000	\$30,155,000
<b>SUB TOTAL — PROPERTIES IN THE COURSE OF DEVELOPMENT</b>		<b>\$14,200,000</b>		\$28,200,000	\$48,555,000

**SCHEDULE 3**

**PROPERTIES HELD FOR DEVELOPMENT**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES / SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
<p><b>HELD FOR DEVELOPMENT</b></p> <p>Property 5</p> <p>Luteranska, 14v</p>	<p>The land site is 3,592 sq m and is held by company LLC “Prominvestgroup” for a period of three years from June 2004.</p> <p>We assume that the lease will be extended and ongoing completion of the development will not be affected. Upon completion of the building, perpetual rights of use of the land will be secured.</p> <p>Presently, the lease is for residential development. However the Company intend to seek a change of concept from a residential site to a hotel. For the purpose of this valuation, we have valued this property as a residential development.</p> <p>The land lease requires that up to 10% of the total area of the building must be granted to the City authorities, with the Company remaining liable for 100% of the construction costs. We assume that the City of Kyiv will elect to take the higher value upper floors. Our valuation reflects this split of apartments with the City council.</p> <p>The land site presently accommodates a school sports area and a steep wooded embankment at the top of which are other buildings. We assume additional compensation will be required to the school and neighboring interests.</p> <p>We assume that with 70% site coverage a single phase residential development will be required to create 9 above ground floors and 2 underground floors. This will cover 27,720 sq m gross area providing a net saleable area of 15,309 sq m plus 113 car parking spaces, after deduction of service areas and contribution to the City.</p>	<p>The scheme is in the early stages of design, and no pre-sales have yet been made.</p>	<p><u>\$11,160,000</u></p>	<p>\$24,607,000</p>	<p>N/A</p>	<p>\$51,065,500</p>



**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 6 "Posolsky Dvir" at Lavrsky, 9	<p>The land site covers 8,300 sq m and is held by company LLC "Elite Service" for a period of twenty five years from November 2004.</p> <p>Presently, the permitted development under this lease is for a hotel and cultural complex. However, the Company is intending to seek a change of the permitted development for the provision of residential apartments. We have valued the site as a residential development.</p> <p>The site will be targeted exclusive elite residential space and offices.</p> <p>The land lease requires that up to 10% of the saleable area must be transferred to the city plus the contribution of 1,000 sq m for a cultural centre, with the Company remaining liable for 100% of the development costs. We assume that the City will elect to take the higher value upper floors. Our valuation reflects this split of apartments with the City Council.</p> <p>The land site is presently an open car park with some redundant low level buildings. The area is adjacent to a historic monastery, and we expect that intensive archaeological investigations will be required in addition to stringent architectural controls. This may result in a longer lead time for development and potentially high development costs.</p> <p>We assume that with 75% site coverage a single phase residential development will be required to develop 4 above ground floors and 1 underground floor. This will cover 31,125 sq m gross area providing a net saleable area of 15,807 sq m plus 140 car parking spaces after deduction of the cultural centre and contribution to the City.</p>	No pre-let or pre-sale agreements have been made.	<b><u>\$26,180,000</u></b>	\$24,311,000	N/A	\$77,731,750

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 7 Yaroslaviv Val, 15a	<p>The land site covers 5,031 sq m and is held by company LLC “Evrohradobud” for a period of ten years from July 2004.</p> <p>The permitted development of the lease is for residential development with underground parking.</p> <p>The land lease requires that up to 10% of the total area of the building (excluding servicing areas) must be granted to the City authorities with the Company remaining liable for 100% of the development costs. We assume that the City will elect to take the higher value upper floors. Our valuation reflects this split of apartments with the City Council.</p> <p>The land site is located back from the road behind two other buildings, and is presently used as a green recreational area with a number of mature trees. The site falls steeply to two sides, and the removal of the trees will be an added cost.</p> <p>The site is centrally located in a premium residential district.</p> <p>We assume that with 70% site coverage a single phase residential development will be required to develop 9 above ground floors and 2 underground floors. This will cover 38,500 sq m gross area providing a net saleable area of 21,262 sq m plus 158 car parking spaces after deduction of service areas and contribution to the City.</p> <p>We assume commencement of an 18 month construction period from 1<sup>st</sup> April 2007.</p>	<p>The property is a proposed development, and no pre-sales or pre-lets have been made.</p>	<b><u>\$7,150,000</u></b>	\$27,635,000	N/A	\$42,486,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 8 "Hetman" at Klovsky Uzviz, 6a	<p>This land site covers 1,848 sq m and is held by company LLC "Elitne Zhytlo" for a period of 2 years from June 2004.</p> <p>LLC "Elitne Zhytlo" also hold a land lease of the site at 19A Lypska Street. Hence, a sale of the interests in land can only be effected by the sale of both sites simultaneously through the sale of the common holding company.</p> <p>We assume commencement of a 21 month construction period from 1<sup>st</sup> October 2006. It is therefore assumed that the lease will be extended, and implementation of development will not be adversely affected. Upon completion of the building, perpetual rights of use of the land will be secured</p> <p>The permitted use of the lease is for residential development with underground parking.</p> <p>The land lease requires that up to 10% of the total area of the building (excluding servicing areas) must be granted to the City authorities with the Company remaining liable for 100% of the construction costs. DTZ assume that the City will elect to take the higher value upper floors. Our valuation reflects this assumption.</p> <p>The site is located within an improving middle range residential district and is back from the road behind one other building. It presently forms a steeply sloping embankment with a number of mature trees, the removal of which will be an added cost. The site includes some privately owned garages, the removal of which will require compensation.</p> <p><b>Contd&gt;&gt;&gt;&gt;&gt;</b></p>	<p>The property is a proposed development, and no pre-sale/lease agreements have been made.</p>	<b><u>\$2,850,000</u></b>	\$14,280,000	N/A	\$20,000,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 9 Kyianivsky, 13-21	<p>This land site covers 55,808 sq m and is held by company LLC “Megagrad” for a period of ten years from November 2004.</p> <p>The permitted development of the lease is for the construction of a residential and office complex. The site would be used for exclusive elite residential space and offices.</p> <p>The land lease requires that up to 10% of the total area of the building must be granted to the City authorities, with the Company remaining liable for 100% of the development costs. We assume that the City will elect to take the higher value upper floors. Our valuation reflects this assumption.</p> <p>The land site presently accommodates a public park. The site is adjacent to the remains of a historic church and, we expect that intensive archaeological investigations will be required in addition to stringent architectural controls. This may result in a long lead time for development and higher development costs.</p> <p>The site is of very irregular shape, and in excess of 50% of the site forms very steeply sloping embankments with around 55 meters height variation across the site. We assume that only 50% site coverage can be achieved.</p> <p>We assume a single phase residential development of 3 above ground floors and 1 underground floor. This will cover 112,000 sq m gross area providing a net saleable area of 56,700 sq m plus 630 car parking spaces, following deduction of service areas and contribution to the City.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<u>\$50,915,000</u>	\$98,750,000	N/A	\$217,000,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 10 Voznesensky Yar	<p>The property is formed from five separate land plots, some of which are non-contiguous, totaling 33,400 sq m.</p> <p>The land is held by Shevchenkovsky Rayon Administration by way of a right of permanent use dated 22<sup>nd</sup> August 2005.</p> <p>Company LLC “Zhytlo XXI Century” has benefit of a 5 year investment agreement with Shevchenkovsky Rayon Administration. This agreement was acquired from CJSC “Ukruniversalbud” in March 2003.</p> <p>DTZ are valuing the interest in the investment agreement of “Zhytlo XXI Century”.</p> <p>The purpose of the land rights are for the Renaissance of the Historical Environment and construction.</p> <p>The investment agreement requires that 10% of the residential area must be granted to the City authorities, and 2% of the non-residential area must be passed to Shevchenkovsky Rayon Administration as a charitable donation. Our valuation reflects this assumption.</p> <p>Under the investment agreement, all works must be completed by March 2008. However, given the complexity and scale of this development, we anticipate completion in 2010. Hence, we assume that the investment agreement will be extended and completion of development will not be adversely affected.</p> <p><b>Contd &gt;&gt;&gt;&gt;</b></p>	<p>The property is a proposed development, and no pre-sale/lease agreements have been made.</p> <p>.</p> <p><b>&gt;&gt;&gt;&gt;Contd</b></p> <p>The site is of very irregular shape, and in excess of 50% of the site forms very steeply sloping embankments with around 50 meters height variation across the site.</p> <p>We assume that with 50% site coverage a single phase residential development will result in 3 above ground floors and 1 underground floor. This will cover 68,000 sq m gross area providing a net saleable area of 33,400 sq m plus 383 car parking spaces after deduction of service areas and contribution to the City.</p>	<b><u>\$10,630,000</u></b>	\$56,760,000	N/A	\$84,500,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 11 Lypska, 19a	<p>The land site covers to 1,715 sq m and is held by company LLC “Elitne Zhytlo” for a period of two years from July 2004.</p> <p>The purpose of the lease is for residential development.</p> <p>The land lease requires that up to 10% of the total area of the building (excluding servicing areas) must be granted to the City authorities, with the Company remaining liable for 100% of the development costs. We assume that the City will elect to take the higher value upper floors. Our valuation reflects this assumption.</p> <p>LLC “Elitne Zhytlo” also holds a land lease of the site at 6a Kloviskiy Uzviz. Hence, a sale of the interests in land can only be effected by the sale of both sites simultaneously through the sale of the common holding company.</p> <p>The land site is set back from the road behind an existing apartment block and presently forms a garaging and amenity area. There is some construction support activity currently present on the site, though this is thought to be temporary.</p> <p>The site is centrally located within a premium residential district.</p> <p>We assume that a single phase residential development will result in nine above ground floors and two underground floors. This covers 11,319 sq m gross area providing a net saleable area of 6,250 sq m plus 46 car parking spaces after deduction of service areas and contribution to the City.</p> <p><b>Contd &gt;&gt;&gt;&gt;&gt;</b></p>	<p>The property is a proposed development, and no pre-sales or lets have been made.</p> <p><b>Contd&gt;&gt;&gt;&gt;&gt;</b> We assume commencement of a six month construction period from 1<sup>st</sup> April 2007. We assume commencement of 21 month construction period from 1<sup>st</sup> October 2006. It is therefore assumed that the lease will be extended and implementation of development will not be adversely affected. Upon completion of the building, perpetual rights of use of the land will be secured.</p>	<b>\$6,040,000</b>	\$8,910,000	N/A	\$19,500,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 12 "Kvadrat Perova" at Perova, 36	<p>Kvadrat Perova site is located within a densely populated high level, medium grade residential area adjacent to a busy suburban dual carriageway.</p> <p>The property comprises a level and regular shaped land plot extending to 2,454sq m forming a public park and accommodating a redundant cinema building with associated parking. An extension of the park area falls outside the area covered by the lease.</p> <p>The land is held by company OJSC "Avrora" for a period of 25 years from September 2004.</p> <p>The permitted development of the lease is for the construction of a trade and entertainment centre with parking. There is an obligation to deliver a multi-screen cinema.</p> <p>We estimate that achieving 40% site coverage with a three floor retail and leisure centre plus additional underground parking, a gross area of 39,264 sq m can be delivered. This results in a net rentable area of 20,614 sq m plus 150 surface and 245 underground car parking spaces.</p> <p>The cinema element of the development will occupy 1,500 sq m of useable space.</p> <p>We have not been provided with a project of the site approved by the City authorities.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<u>\$14,965,000</u>	\$27,705,000	\$7,635,000	\$61,100,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 13 "Kvadrat Lisova" at Popudrenka, 50	<p>Kvadrat Lisova site is located in the Eastern periphery of the city close to an area of intensive low-middle grade high density residential development. The site has access to a major arterial road and the existing terminal metro line stop. To the rear of the site, the area is characterized as being predominantly industrial with a low cost open market.</p> <p>The property comprises four individual plots, three of which are contiguous and separated from the 4<sup>th</sup> by a local service road. The sites are not intensively developed.</p> <p>The sites are level and regular shaped extending in total to 5,620 sq m. Four separate land leases are each executed to CJSC "Kvadrat Ukraina", three of which are for 15 years, with the remainder being for 5 years.</p> <p>CJSC "Kvadrat Ukraina" also hold land leases of sites at Myloslavska Street and Balzaka Street. Hence, a sale of the interests in land can only be effected by the sale of all three sites simultaneously through the sale of the common holding company.</p> <p>One of the leases requires that the construction should be finished within three years (e.g. by 7.10.2010). We project that development will be complete by December 2010. Hence, we assume that the lease agreement will be extended and completion of development will not be adversely affected.</p> <p>We have not been provided with a project for the development approved by the City authorities.</p> <p><b>Contd &gt;&gt;&gt;&gt;&gt;</b></p>	<p>The property is a proposed development, and no pre-sale/lease agreements have been made.</p> <p><b>Contd&gt;&gt;&gt;&gt;&gt;</b> The lease is for the construction of a trade, office and entertainment centre with parking.</p> <p>We estimate that achieving 30% site coverage will result in a main centre of 1.5 floors and two stand alone units each of 2 floors to be used for a retail and leisure centre. This will cover a gross area of 47,800 sq m with a net rentable area of 33,460 sq m and surface parking for around 610 cars.</p>	<u>\$14,080,000</u>	\$33,400,000	\$9,600,000	\$76,800,000



**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 14 "Kvadrat Balzaka" at Onore de Balzaka, 91/29a	<p>Kvadrat Balzaka site is located within a densely populated low grade residential area adjacent to a busy suburban dual carriageway. A new metro station is planned to open in very close proximity to the site.</p> <p>The property comprises a level land plot extending to 4,400 sq m and is presently undeveloped, lying between an apartment block and the carriageway.</p> <p>The land lease is owned by company CJSC "Kvadrat Ukraina" for a period of five years from October 2005. CJSC "Kvadrat Ukraina" also hold land leases of sites at Myloslavka Street and Popudrenka Street. Hence, a sale of the interests in land can only be effected by the sale of all three sites simultaneously through the sale of the common holding company.</p> <p>The permitted development under the terms of the lease is the construction of a retail complex.</p> <p>We estimate that achieving 55% site coverage will result in development of an average of two floors for a retail and commercial centre. This will cover a gross area of 4,840sq m with a net rentable area of 3,872 sq m and surface parking for around 45 cars.</p> <p>We have not been provided with a project of the site approved by the City authorities.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<b><u>\$2,173,000</u></b>	\$3,211,000	\$1,042,000	\$7,450,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 15 “Kvadrat Myloslavska” at cross of Myloslavska and Mayakovskoho	<p>Kvadrat Myloslavska is located in the Eastern periphery of the City close to an area of intensive low grade high density residential development. The site is in close proximity to a suburban highway with tram stop. A metro station is planned to open nearby within the next 2-3 years.</p> <p>The property comprises an irregular shaped level presently undeveloped land plot.</p> <p>The site extends to 72,600 sq m and is held by a land lease executed to CJSC “Kvadrat Ukraina” for a term of 25 years from October 2005.</p> <p>CJSC “Kvadrat Ukraina” also hold land leases of sites at Popudrenka Street and Balzaka Street. Hence, a sale of the interests in land can only be effected by the sale of all three sites simultaneously through the sale of the common holding company.</p> <p>The lease stipulates that the developer must provide flood water management drainage within the site.</p> <p>We have not been provided with a project for the development approved by the City authorities.</p> <p>The purpose of the lease is the construction of a retail and entertainment complex with recreation, playground and aqua zones.</p> <p>We estimate that achieving 66% site coverage with a single level development will result in development of a retail and leisure centre of 48,000 sq m gross area. This will be delivered in two phases with a net rentable area of 36,800 sq m and surface parking for around 650 cars.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<u>\$24,280,000</u>	\$35,325,000	\$11,033,000	\$92,000,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 16 “Vyshhorod” at Novi Petrivtsi Village, Vyshhorodsky	<p>LLC “Shvydko-Invest” hold a State Act On The Right Of Permanent Use of the land site dated December 2000 based upon a decision by the Novopetrivskiy local council.</p> <p>Whilst the Right of Permanent Use enables only agricultural use, the Company is seeking a change of allowed use to enable warehousing development. Whilst re-zoning has not as yet been achieved, the Company has assured us that this will be achieved shortly, and we make a special assumption that this change in zoning will be made without extraordinary cost. This special assumption will result in commercial warehousing development commencing within 6 months.</p> <p>The land extends to 20 hectares comprising two generally regular shaped and level plots separated by a reservation strip which will form the line of a new trunk road.</p> <p>We assume site coverage of 35% to 40% on the two plots respectively providing 69,300 sq m of warehousing space plus 7,400 sq m of ancillary offices.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<b><u>\$2,270,000</u></b>	\$33,451,000	\$5,850,000	\$45,000,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
Property 17 “Virlytsia” at Prospekt Bazhana	<p>Virlytsia Lake is located within the south-east district of the City immediately adjacent to the main airport road in an area of high density medium range residential and retail activity. A metro station exists in close proximity to one end of the site and, another metro station is due to open at the other end within 12 months.</p> <p>The property comprises an irregular shaped level land plot including an area of lake and is presently undeveloped.</p> <p>The property comprises of two land plots which extend to a total area of 258,900sq m. Though the decision of Kyiv City Council was to grant a 25-year lease for the site with an area of 19,72 ha and a 5-year lease for the site with an area of 6,17 ha, both leases were granted to LLC “Mriya Invest” for 5 years, each lease being dated November 10 2005.</p> <p>We assume a seven year phased development. It is therefore assumed that the leases will be extended, and implementation of development will not be adversely affected. Upon completion of the buildings, perpetual rights of use of the land will be secured.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<u>\$56,205,000</u>	\$190,125,000	\$39,600,000	\$380,000,000

**PROPERTIES HELD FOR DEVELOPMENT (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>ESTIMATED NET ANNUAL RENT</u>	<u>VALUE UPON COMPLETION</u>
	<p>The purpose of the leases is development of a retail, entertainment, office and exhibition centre. The lease stipulates that the area immediately adjacent to the lake may only accommodate constructions in relation to water management and control and must not be developed for commercial use. We have not been provided with a project for the development approved by the City authorities. We project phased development of the site on a 5 hectare area. We believe 50% site coverage will provide a two phase 50,000 sq m gross area Kvadrat retail centre providing 38,800sq m of rentable space over two floors with 625 surface parking spaces. We also propose use of the 20 hectare balance to develop a multi-phased delivery of an office business park with subsidiary amenities totaling 126,940 sq m gross area providing 109,025sq m rentable area plus underground and surface parking for 1,500 cars.</p>					
	<b>SUB-TOTAL — PROPERTIES HELD FOR DEVELOPMENT</b>		<b>\$228,898,000</b>	\$578,470,000		\$1,174,633,250
	<b>TOTAL — AGGREGATE VALUATION</b>		<b>\$271,868,000</b>	\$606,670,000		\$1,251,958,250

**SCHEDULE 4**

**POTENTIAL FUTURE DEVELOPMENT OPPORTUNITIES**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>VALUE UPON COMPLETION</u>
<b>POTENTIAL FUTURE DEVELOPMENT OPPORTUNITIES</b>	This land site extending to 3,000 sq m is the subject of a City decision dated September 2003 to grant a 2 year lease to LLC "Rielter Elite". As yet, the lease is not executed. The valuation is made on the special assumption that the lease will be granted within a short period of time.	The property is a proposed development, and no pre-sale/lease agreements have been made.	<b><u>\$1,120,000</u></b>	\$15,480,000	\$18,168,000
Property 18	The purpose of the lease is the construction of a residential complex. The site would lend itself to middle range residential development. Due to the proximity of the highway and given that it is overlooking older residential blocks, this site cannot be considered for elite development.				
Verkhnia, 4	We assume that the land lease will require that up to 10% of the total area of the building must be granted to the City authorities with the Company remaining liable for 100% of the construction costs. We assume that the City will elect to take the higher value upper floors. Our valuation reflects this assumption.				
	The land site presently accommodates a public park, is of irregular shape, and steeply slopes down towards a busy inner ring road highway. We assume that 70% site coverage can be achieved.				
	We assume a single phase residential development resulting in development of 9 above ground floors and 2 underground floors. This covers 23,100 sq m gross area providing a net saleable area of 12,757 sq m plus 95 car parking spaces after deduction of service areas and contribution to the City.				

**POTENTIAL FUTURE DEVELOPMENT OPPORTUNITIES (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>VALUE UPON COMPLETION</u>
Property 19 Tolstoho, 31	<p>This opportunity concerns the decision of Kyiv City Council in December 2004 to grant to LLC “Architectura Lux” rights to non-residential buildings at 31A and 31B Tolstoho Street, totaling 3,661 sq m. The valuation is made on the special assumption that the formalization of the decision will be made within a short period of time.</p> <p>The rights are subject to LLC “Architectura Lux” relocating the tenants of 31A and 31B Tolstoho Street in a new building to be constructed at 4 Richna Street.</p> <p>We assume that 4 Richna Street will be granted by the City to LLC “Architectura Lux” for the purposes of the construction only on the condition that relocation of the 4 Richna Street tenants is also achieved by the Company.</p> <p>There is a balancing shortfall clause in that should the market value of the building at 31A and 31B Tolstoho Street exceed the value of the compensatory premises, LLC “Architectura Lux” must compensate the shortfall.</p> <p>We assume that no balancing payment will be due, however a risk exists that the City may claim for shortfall compensation.</p> <p>We assume that upon transfer of the building at 4 Richna Street a land lease will then be granted enabling LLC “Architectura Lux” to develop the site with a nine storey elite grade residential tower plus two underground parking levels totaling 50,160 sq m gross area. This offers 33,858 sq m of net saleable area plus 205 parking spaces after contribution to the city of 10% of the area.</p> <p>We deduct the costs of advance development of 4 Richna Street and relocation of tenants to this space prior to commencement of the redevelopment of 31A and 31B Tolstoho Street.</p>	The property is a proposed development, and no pre-sale/lease agreements have been made.	<b><u>\$5,335,000</u></b>	\$45,436,000	\$61,305,000

**POTENTIAL FUTURE DEVELOPMENT OPPORTUNITIES (CONTINUED)**

<u>ADDRESS</u>	<u>DESCRIPTION, AGE AND TENURE</u>	<u>TERMS OF EXISTING TENANCIES/ SALES</u>	<u>MARKET VALUE IN EXISTING STATE</u>	<u>ESTIMATED COSTS OF COMPLETING DEVELOPMENT</u>	<u>VALUE UPON COMPLETION</u>
Property 20 Kruty Uzviz, 4	<p>This opportunity concerns the decision of Kyiv City Council in December 2004 to grant to LLC “Elitne Zhytlo” rights to a non-residential building at 4 Kruty Uzviz Street in return for LLC “Elitne Zhytlo” transferring to the City authorities 2,000sq m of space at another building, 11 Sagaydachnogo Street. The valuation is made on the special assumption that the formalization of the decision will be made within a short period of time.</p> <p>There is a balancing clause that should the market value of the building at 4 Kruty Uzviz Street exceed the value of the compensatory premises, LLC “Elitne Zhytlo” must compensate the shortfall.</p> <p>We assume that no balancing shortfall will be due; however, a risk exists that the City may claim for shortfall compensation.</p> <p>LLC “Elitne Zhytlo” apparently have no interest in 11 Sagaydachnogo Street, and we accordingly assume that they can make a transfer to the City of alternative space of comparable value to that on Sagaydachnogo Street.</p> <p>LLC “Elitne Zhytlo” also hold land leases of sites at Lypska Street and Klovsy Uzviz. In the event that the building is transferred and a land lease taken in the name of LLC “Elitne Zhytlo”, it must be noted that a sale of LLC “Elitne Zhytlo” would require the sale of all three land leases.</p> <p>We assume that upon transfer of the building at 4 Kruty Uzviz, a land lease will be granted enabling LLC “Elitne Zhytlo” to develop the site with a nine storey elite grade residential tower plus two levels of underground parking of 8,910 sq m gross area. This will result in 6,015 sq m of net saleable area plus 36 parking spaces after contribution to the City of 10% of the area.</p> <p>We deduct the costs of advance provision of compensatory space for the relocation of tenants in this space prior to commencement of the redevelopment of 4 Kruty Uzviz.</p>	The property, is a proposed development and no pre-sale/lease agreements have been made.	<b><u>\$1,420,000</u></b>	\$11,646,000	\$16,400,000



## PART VIII

### ACCOUNTANT'S REPORT AND FINANCIAL INFORMATION ON THE GROUP

#### Section A — Accountant's report on the financial information on the Group



BDO Stoy Hayward  
Chartered Accountants

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London W1U 3LL  
United Kingdom

The Directors  
XXI Century Investments Public Limited  
Themistokli Dervi, 5  
Elenion Building 2<sup>nd</sup> Floor  
1066 Nicosia, Cyprus

13 December 2005

ING Bank N.V., London Branch  
60 London Wall  
London  
EC2M 5TQ  
United Kingdom

Dear Sirs

#### **XXI CENTURY INVESTMENTS PUBLIC LIMITED (“THE COMPANY”) AND ITS SUBSIDIARIES (TOGETHER, “THE GROUP”)**

We report on the financial information of the Group for the six months ended 30 June 2004, the year ended 31 December 2004 and the six months ended 30 June 2005 set out in Part VIII Section B. This financial information has been prepared for inclusion in the admission document dated 13 December 2005 of the Company (the “Admission Document”) on the basis of the accounting policies set out in note 3 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with the AIM Rules and for no other purpose.

#### **Responsibilities**

As described in note 1 to the financial information, 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”), including International Accounting Standards and Interpretation adopted by the International Accounting Standards Board, as applicable for the relevant period.

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

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations 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.

**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 dates stated and of its profits and cash flows for the periods then ended in accordance with the basis of preparation set out in note 2 to the financial information and in accordance with applicable IFRS as described in note 3 to the financial information.

We emphasise that we express no opinion on the Group's unaudited balance sheet at 31 December 2003.

**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

BDO Stoy Hayward LLP  
Chartered Accountants

**Section B — Financial information on the Group for the six months ended 30 June 2004, the year ended 31 December 2004 and the six months ended 30 June 2005**

**CONSOLIDATED INCOME STATEMENTS**  
(expressed in US dollars)

	<u>Note</u>	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
<b>Revenue</b> .....	4	2,398,702	5,351,175	2,831,722
Cost of sales.....		<u>(885,274)</u>	<u>(2,066,288)</u>	<u>(1,530,895)</u>
Gross profit .....		1,513,428	3,284,887	1,300,827
Other operating income.....		65,390	162,891	62,512
Selling and distribution costs .....		(911,525)	(2,029,503)	(1,294,560)
General and administrative expenses .....		(800,416)	(2,271,084)	(1,029,596)
Other operating expenses .....		(234,036)	(473,487)	(62,064)
Increase in fair value of investment property .		—	—	82,038,674
<b>(Loss)/profit from operations</b> .....		(367,159)	(1,326,296)	81,015,793
Financial income, net .....	5	71,847	7,244	306,247
Negative goodwill arising on consolidation ...	11	2,189,631	2,646,117	1,149,787
Share of loss from associates .....		<u>(2,338)</u>	<u>(117,972)</u>	<u>(22,012)</u>
<b>Profit before tax</b> .....	6	1,891,981	1,209,093	82,449,815
Income tax expense .....	26	<u>(32,184)</u>	<u>(85,420)</u>	<u>(20,529,398)</u>
<b>Profit for the period/year</b> .....		<u>1,859,797</u>	<u>1,123,673</u>	<u>61,920,417</u>
Relating to:				
Continuing activities.....		2,072,486	1,712,191	62,401,956
Discontinued activities.....		<u>(212,689)</u>	<u>(588,518)</u>	<u>(481,539)</u>
		1,859,797	1,123,673	61,920,417
Attributable to:				
Equity holders of the parent.....		1,949,492	1,558,449	47,661,657
Minority interests .....		<u>(89,695)</u>	<u>(434,776)</u>	<u>14,258,760</u>
		<u>1,859,797</u>	<u>1,123,673</u>	<u>61,920,417</u>

**CONSOLIDATED BALANCE SHEETS**  
(expressed in US dollars)

	Note	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment .....	9	641,233	1,487,125	3,349,122	70,179,154
Intangible assets .....	10	9,922	553,756	539,640	570,042
Goodwill .....	11	—	142,366	660,529	2,823,906
Investments in associates .....	13	3,594,966	3,715,570	2,767,529	2,820,973
Investment property .....	14	11,646,003	12,520,157	12,138,555	31,237,090
Long term receivables .....	15	—	—	—	593,474
<b>Total non-current assets .....</b>		<u>15,892,124</u>	<u>18,418,974</u>	<u>19,455,375</u>	<u>108,224,639</u>
<b>Current assets</b>					
Inventories .....	16	50,111	1,537,814	2,491,165	4,587,430
Trade receivables .....		73,290	803	74,634	104,765
Other current assets .....	17	3,376,614	4,917,786	3,531,030	5,706,614
Cash and cash equivalents .....	18	187,041	3,490,102	1,451,148	792,822
<b>Total current assets .....</b>		<u>3,687,056</u>	<u>9,946,505</u>	<u>7,547,977</u>	<u>11,191,631</u>
<b>Total assets .....</b>		<u>19,579,180</u>	<u>28,365,479</u>	<u>27,003,352</u>	<u>119,416,270</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital .....	19	1,728	1,728	1,728	1,728
Reserves .....	20	—	55,885	(85,465)	48,289,023
Accumulated profits .....	21	7,814,039	9,763,531	9,372,488	10,078,206
<b>Equity attributable to equity holders of the parent .....</b>		<u>7,815,767</u>	<u>9,821,144</u>	<u>9,288,751</u>	<u>58,368,957</u>
Minority interests .....		<u>6,286,599</u>	<u>8,331,996</u>	<u>8,610,349</u>	<u>24,706,153</u>
<b>Total equity .....</b>		<u>14,102,366</u>	<u>18,153,140</u>	<u>17,899,100</u>	<u>83,075,110</u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Long-term debt .....	22	1,728,106	3,281,583	2,778,697	4,947,519
Deferred tax liabilities .....	23	—	383	14,408	20,530,501
<b>Total non-current liabilities .....</b>		<u>1,728,106</u>	<u>3,281,966</u>	<u>2,793,105</u>	<u>25,478,020</u>
<b>Current liabilities</b>					
Trade and other payables .....	24	3,635,615	6,222,068	4,302,177	7,416,956
Short-term debt .....	25	100,000	707,142	2,005,504	3,438,832
Income tax payable .....	26	13,093	1,163	3,466	7,352
<b>Total current liabilities .....</b>		<u>3,748,708</u>	<u>6,930,373</u>	<u>6,311,147</u>	<u>10,863,140</u>
<b>Total liabilities .....</b>		<u>5,476,814</u>	<u>10,212,339</u>	<u>9,104,252</u>	<u>36,341,160</u>
<b>Total equity and liabilities .....</b>		<u>19,579,180</u>	<u>28,365,479</u>	<u>27,003,352</u>	<u>119,416,270</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(expressed in US dollars)

	Share capital \$	Revaluation reserve \$	Exchange fluctuation reserve \$	Retained Earnings \$	Total \$
<b>Balance as at 1 January 2004 . . . .</b>	1,728	—	—	7,814,039	7,815,767
Translation differences . . . . .	—	—	55,885	—	55,885
Profit for the period . . . . .	—	—	—	1,949,492	1,949,492
<b>Balance as at 30 June 2004 . . . .</b>	<u>1,728</u>	<u>—</u>	<u>55,885</u>	<u>9,763,531</u>	<u>9,821,144</u>
<b>Balance as at 1 January 2004 . . . .</b>	1,728	—	—	7,814,039	7,815,767
Translation differences . . . . .	—	—	(85,465)	—	(85,465)
Profit for the year . . . . .	—	—	—	1,558,449	1,558,449
<b>Balance as at 31 December 2004 .</b>	1,728	—	(85,465)	9,372,488	9,288,751
Surplus on revaluation of investment properties . . . . .	—	82,038,674	—	—	82,038,674
Deferred tax arising on revaluation of investment properties . . . . .	—	(20,509,668)	—	—	(20,509,668)
Minority share of revaluation of investment properties . . . . .	—	(14,573,067)	—	—	(14,573,067)
Translation differences . . . . .	—	—	1,418,549	—	1,418,549
Profit for the period . . . . .	—	—	—	705,718	705,718
<b>Balance as at 30 June 2005 . . . .</b>	<u>1,728</u>	<u>46,955,939</u>	<u>1,333,084</u>	<u>10,078,206</u>	<u>58,368,957</u>

**CONSOLIDATED CASH FLOW STATEMENTS**  
(expressed in US dollars)

	<u>Note</u>	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Cash flows from operating activities				
Profit before tax . . . . .		1,891,981	1,209,093	82,449,815
Adjustment for:				
Depreciation of property, plant and equipment . . . . .		405,493	655,501	305,162
Increase in fair value of investment property . . . . .		—	—	(82,038,674)
Negative goodwill arising on consolidation . . . . .		(2,189,631)	(2,646,117)	(1,149,787)
Amortisation of intangible assets . . . . .		51,258	82,849	33,902
Share of loss from associates . . . . .		2,338	117,972	22,012
Income from exchange differences . . . . .		(1,796)	(1,439)	(343,017)
Interest receivable . . . . .		(95)	(991)	(329)
Interest expense . . . . .		138,040	202,098	174,650
Gains on sale of investments . . . . .		(207,996)	(206,348)	(137,551)
Loss on sale of property, plant and equipment . . . . .		254	71,998	45,221
<b>Operating profit/(loss) before working capital changes . . . . .</b>		<b>89,846</b>	<b>(515,384)</b>	<b>(638,596)</b>
Share of assets acquired from subsidiary undertakings . . . . .		26,519,951	26,934,127	31,888,453
Share of liabilities acquired from subsidiary undertakings . . . . .		(13,862,666)	(11,096,440)	(16,379,487)
Increase in inventories . . . . .		(1,487,703)	(2,441,054)	(2,096,265)
Decrease/(increase) in trade receivables . . . . .		72,487	(1,344)	(30,131)
Increase in long term receivables . . . . .		—	—	(593,474)
Increase in other current assets . . . . .		(1,541,172)	(154,516)	(2,175,584)
Increase in trade and other payables . . . . .		<u>2,586,089</u>	<u>652,268</u>	<u>3,109,226</u>
<b>Cash generated from operations . . . . .</b>		<b>12,376,832</b>	<b>13,377,657</b>	<b>13,084,142</b>
Interest paid . . . . .		(138,040)	(202,098)	(174,650)
Income taxes paid . . . . .	26	<u>(43,750)</u>	<u>(80,653)</u>	<u>(10,291)</u>
<b>Net cash provided by operating activities . . . . .</b>		<b><u>12,195,042</u></b>	<b><u>13,094,906</u></b>	<b><u>12,899,201</u></b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment . . . . .		(1,511,519)	(3,773,239)	(1,148,402)
Proceeds from sale of property, plant and equipment . . . . .		261,182	349,882	37,447
Proceeds from sale of investments . . . . .		207,996	206,348	137,551
Purchase of intangible assets . . . . .		(594,295)	(610,187)	(39,131)
Purchase of investment in subsidiary undertakings . . . . .		(8,388,359)	(9,645,771)	(13,734,557)
Purchase of investment in associates . . . . .		(173,169)	(322,198)	(3,957)
Purchase/sale of investment property . . . . .		(861,580)	(996,893)	(2,409,088)
Interest received . . . . .		<u>94</u>	<u>991</u>	<u>329</u>
<b>Net cash used in investing activities . . . . .</b>		<b><u>(11,059,650)</u></b>	<b><u>(14,791,067)</u></b>	<b><u>(17,159,808)</u></b>
<b>Cash flows from financing activities</b>				
Proceeds from loans . . . . .		<u>2,160,619</u>	<u>2,956,095</u>	<u>3,602,150</u>
<b>Net cash provided by financing activities . . . . .</b>		<b><u>2,160,619</u></b>	<b><u>2,956,095</u></b>	<b><u>3,602,150</u></b>
Effect of foreign exchange rates on cash and cash equivalents . . . . .		<u>7,050</u>	<u>4,173</u>	<u>131</u>
Net increase/(decrease) in cash and cash equivalents . . . . .		3,303,061	1,264,107	(658,326)
Cash and cash equivalents at the beginning of the period/year . . . . .		<u>187,041</u>	<u>187,041</u>	<u>1,451,148</u>
<b>Cash and cash equivalents at the end of the period/year . . . . .</b>	18	<b><u>3,490,102</u></b>	<b><u>1,451,148</u></b>	<b><u>792,822</u></b>

## **1. Responsibility**

The Directors are responsible for the financial information of the Group set out in this Section B of Part VIII of this document.

## **2. Basis of preparation**

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”). This financial information is presented in United States Dollars (the “\$”).

All entities of the Group, except for XXI Century Investments Public Limited and Mikasal Ventures Limited maintain their accounting records in Ukrainian Hryvnia and in accordance with the accounting and reporting regulations of Ukraine. XXI Century Investments Public Limited and Mikasal Ventures Limited maintain their accounting records in United States Dollars and in accordance with IFRS.

The Group’s management has decided to present and measure this consolidated financial information in US Dollars for the following reasons:

- Owing to the nature of the Group’s business, most of management’s economic and operational decisions are based on US Dollars;
- The management believes that US Dollars reporting will better reflect the economic substance of the underlying events and circumstances relevant to the Group.

Ukrainian statutory accounting principals and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial information, which has been prepared from the Ukrainian statutory accounting records for the entities of the Group domiciled in Ukraine, reflects adjustments necessary for such financial information to be presented in accordance with IFRS.

As management records the financial information of the entities domiciled in Ukraine in Hryvnia, in translating financial information of the entities domiciled in Ukraine into US Dollars for incorporation in the consolidated financial information, the Group follows a translation policy in accordance with International Accounting Standard No. 21, “The Effects of Changes in Foreign Exchange Rates”, and the following procedures are performed:

- Monetary assets and liabilities are translated at closing rate;
- Non-monetary assets and liabilities are translated into US Dollars using exchange rates in effect at the day of the transaction;
- Income and expense items are translated using exchange rates at the dates of the transactions;

All resulting exchange differences are recorded as a separate component of equity.

The relevant exchange rates of the Central Bank of Ukraine used in translating the financial information of the entities domiciled in Ukraine into US Dollars were:

US Dollar 1 = UAH 5.3207 as at 30 June 2004

US Dollar 1 = UAH 5.3054 as at 31 December 2004

US Dollar 1 = UAH 5.0550 as at 30 June 2005

The consolidated financial information of the Group is prepared on the historical cost basis, and accruals method of accounting except for:

- Valuation of investment property under development related to the commercial centres which have been accounted for in accordance with IAS No. 16 “Property, Plant and Equipment” using the cost model at 31 December 2003, 30 June 2004 and 31 December 2004 and using the revaluation model at 30 June 2005; and
- Valuation of investment property, which has been accounted for in accordance with IAS No. 40 “Investment property” using the cost model at 31 December 2003, 30 June 2004 and 31 December 2004, and using the fair value model at 30 June 2005.

## **Use of estimates and assumptions**

The preparation of consolidated financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and

expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates. As the results of the Group's operations are closely connected to and depend on the changing market conditions, the results of the Group's operations for the six month periods are not necessarily indicative of results for the year.

### ***Statement of compliance***

#### ***Adoption of IFRS***

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the rules for adopting IFRS in the first statutory accounts of XXI Century Investments Public Limited under IFRS. It requires that the IFRS accounting policies to be applied for the first statutory accounts for the six month period to 30 June 2005 are determined and then applied retrospectively to the opening balance sheet at 1 January 2004. IFRS 1 contains certain optional exemptions to assist in the transition to IFRS. XXI Century Investments Public Limited has elected to use these exemptions. The financial information set out in this Section B of Part VIII of this document is also prepared on this basis.

The financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

#### ***Basis of consolidation***

##### *(i) Subsidiaries*

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial information of subsidiaries is included in the consolidated financial information from the date that control effectively commences until the date that control effectively ceases. In the Group's financial information, investments in subsidiaries are accounted for under the acquisition method.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

##### *(ii) Associates*

Associates are those enterprises in which the Group has significant influence but not control, over the financial and operating activities. In the consolidated financial information, investments in associated companies are accounted for using the equity method. The Group's share of net assets of these companies is included in "investments in associates".

##### *(iii) Transactions eliminated on consolidation*

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### *(iv) Goodwill and negative goodwill*

Goodwill arising on business combinations as defined in IFRS 3 is recognised on the balance sheet on consolidation at cost, being the cost of the combination less the fair value of the identifiable assets, liabilities and contingent liabilities acquired. It is subsequently measured at cost less accumulated impairment losses.

In business combinations where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the combination, the 'negative goodwill' arising is recognised immediately in the income statement.

### ***3. Accounting policies***

The significant accounting policies applied in the preparation of the financial information are as follows:

#### *(i) Revenue recognition*

Sales are recognised when delivery has taken place and transfer of risks has been completed, or on providing services to third parties. Revenue and gross profits arising on unconditional sales of residential



property are recognised based on the percentage of completion of the service contract for the residential development. When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately.

*(ii) Turnover*

Turnover represents sales of goods and services rendered during the year, invoiced net of value added tax and after deducting trade discounts and returns.

*(iii) Land under construction*

“Land under construction” represents land that is in the process of development by the Group to be held for future investment purposes. When the development of such land is completed, the Group classifies it as an investment property and accounts for it in accordance with IAS No. 40 “Investment Property”. Until the development is completed, IAS No. 16 “Property, Plant and Equipment” is being applied. At 30 June 2005, the Group elected to carry the land at a revalued amount as determined by an independent competent valuer. The Group plans to perform revaluations of the land under construction with sufficient regularity so as the carrying amount does not differ materially from the fair value of such land at the reporting date.

When the carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholders’ equity as a revaluation reserve. However, the increase is recognised as a profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised as a profit or loss. If the carrying amount is decreased as a result of a revaluation, the decrease is recognised as a profit or loss. However, the decrease is debited directly to equity under revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of the asset.

*(iv) Land held for resale*

“Land held for resale” represents land parcels on which residential buildings are being constructed with the intention of being sold once construction is completed. Land held for resale is stated at the lower of cost or net realisable value.

*(v) Investment property*

“Investment property” is the real estate property held by the Company to earn rentals and for capital appreciation. Investment property is originally recorded at cost. Subsequent expenditure in relation to investment property that has already been recognised is added to the carrying amount of the investment property when it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other expenditures are recognised as expenses in the period in which they are incurred.

At 30 June 2005, the Group elected to use the fair value model to measure investment property subsequent to its initial recognition; therefore investment property is stated at fair value (also see below “Changes in accounting policy”).

On 11 November 2005 the property was revalued by DTZ Kiev B.V. (“DTZ Kiev”), an external valuer. All valuations were carried out in accordance with the Red Book and were undertaken by appropriately qualified valuers.

*Basis of valuation*

The valuer’s opinion of the Market Value of each property has been primarily derived using comparable recent market transactions on an arm’s length basis and an estimate of the future potential net income generated by use of the properties because their specialised nature means that there is no market based evidence available. In preparing the valuation of the property, the valuer has made certain special assumptions. The special assumptions are set out in the following extract from the valuation:

“It should be noted that land leases are effectively non-transferable in Kyiv. As each lease is however held by a special purpose vehicle company ‘SPV’, we therefore value each lease on the special assumption that the shares in each company can be sold and, that no other assets or liabilities are held by that company that might affect the ability for the sale of shares. Some SPV’s do however hold the leases of multiple properties and, we have taken cognizance of the fact that the sale of one of these properties would, de facto require the sale of all other properties held within that SPV to the purchaser. This may adversely affect the general liquidity of some assets.

Whilst in Kyiv the lessee of a ground lease has a priority right to renew the lease upon expiry, on the same terms and conditions, you should be aware that the effectiveness of the Term Extension Right Clause 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.

We would caution that a number of the land leases are held for relatively short terms and place an obligation upon the lessee to complete development by a prescribed date. Whilst the leases provide a 'use destination' of the land, the lessee is still required to obtain from the City Authorities a 'Project' which confirms the architectural, planning, engineering and other requirements of development. Where a property is either "*currently in the course of development*" or "*held for future development*" 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 permission will be forthcoming without material cost or delay.

Arguably, in the event that the lessee has not completed development by the completion date stipulated in the lease then the rights to complete the development could be frustrated. Similarly, where development has not commenced by the end date of the lease then, the City could decline to renew the lease on the grounds that the land is not used in accordance with its destination. Accordingly there is a risk that where projects or, permissions to start construction works are not in place then, the City could frustrate the grant of these and, in turn frustrate the use of land in accordance with its destination, providing grounds for cancellation/non-renewal of the land lease. For the purposes of this valuation, we have made the special assumption that no such frustration will occur and, if necessary short-term leases will be extended/renewed by the City to facilitate the deferred commencement/completion of construction by the Company".

Subject to the general limitations of the inspections and sources of information each valuation is not subject to any specific reservations in relation to restricted information or property inspection.

#### *Changes in accounting policy*

In 2005, the Group made a decision to account for the investment property using the fair value model, including the gain from a change in the fair value of investment property in net profit or loss for the period in which it arises. Up to 31 December 2004, the investment property was accounted for using the cost model.

In accordance with IAS No. 8, "Net Profit and Loss for the Period, Fundamental Errors and Changes in Accounting Policy", changes classified as changes in accounting policy should be applied retrospectively to ensure enhanced reflection of events and transactions and presentation of more relevant and reliable information. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity should apply the new policy prospectively from the start of the earliest period practicable. It should therefore disregard the portion of the cumulative adjustment to assets, liabilities and equity arising before that date.

Retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that provides evidence of circumstances that existed on the date(s) as at which the transaction would have occurred, and that would have been available when the financial statements for that prior period were authorised for issue.

The Group is of the opinion that a retrospective application of the change in accounting policy regarding the fair value of investment property is impracticable, as it would require making a significant estimate for which it is impossible to distinguish the information required. As such, all adjustments due to this change in accounting policy have been reflected in adjustment of the net profit or loss for the six month period to 30 June 2005.

#### *(vi) Foreign currency*

Transactions denominated in foreign currencies are recorded in US Dollars using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies are translated into US Dollars using the exchange rate at the balance sheet date. Non monetary assets and liabilities which originated in currencies other than US Dollars have been translated into US Dollars using exchange rates in effect at the date of the transaction. Exchange differences resulting from these

translations are included as a separate component of equity. Realised foreign currency gains and losses arising from the settlement of assets and liabilities are reflected in the income statement as foreign exchange gain/loss, net.

*(vii) Net financing costs*

Net financing costs comprise bank interest receivable, foreign exchange gains and losses and interest payable on borrowings. Interest income is recognised in the income statement as it accrues. Financing costs connected with borrowings for the acquisition of property and equipment, or for the construction of residential or commercial buildings for sale in the normal course of business operations incurred during the period are expensed as incurred in line with other borrowing costs and are included as part of net financing costs.

*(viii) Taxation*

Taxation has been provided for in the financial information in accordance with Ukrainian and Cypriot legislation currently in force.

The charge for taxation in the statement of operations for the period comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the period using the tax rates in operation at the balance sheet date. Taxes other than on income are recorded within operating expenses.

*(ix) Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit and is not considered a business combination, and from differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

Deferred tax arising from the revaluation of non-current assets is transferred to the income statement for the year, unless a revaluation reserve has been created from the revaluation of the non-current assets in which case deferred tax is deducted from this reserve.

*(x) Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, not including general and administrative overheads, which have been incurred in bringing the inventories to their present location and condition.

Work in progress is valued at cost, which includes cost of raw materials and labour and other directly associated costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

*(xi) Trade and other receivables*

Trade and other receivables are stated at amortised cost less any impairment losses.

*(xii) Cash and cash equivalents*

Cash and cash equivalents are items which are readily convertible into a known amount of cash. Cash and cash equivalents comprise accounts with banks excluding any short term investments for which access to funds is restricted.

*(xiii) Related party transactions*

For the purpose of this financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS No. 24 “Related Party disclosures”. In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

*(xiv) Property, plant and equipment*

Property, plant and equipment is stated at cost, which consists of the purchase price and any associated costs, installation costs, or revalued amounts, less accumulated depreciation. Depreciation is charged on a diminishing basis over the estimated useful lives of the assets, as follows:

Buildings	33 years
Machinery	10 years
Furniture & fittings	10 years
Motor vehicles	5-10 years
Computer equipment	5 years

Freehold land is not depreciated

Maintenance repairs, including minor renewals and improvements are charged to income as incurred. The costs of major renovations and improvements are capitalised.

*(xv) Intangible assets*

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if it is probable that the expected future economic benefits attributable to the asset would flow to the enterprise and its cost could be measured reliably. An entity assesses whether the useful life of an intangible asset is finite or indefinite. The useful life is indefinite if there is no foreseeable limit to the period over which the asset is expected to generate net cash flows. The depreciable amount of an intangible asset with a finite life is amortised on a systematic basis over its useful life. An intangible asset with an indefinite useful life is not amortised, but is tested for impairment.

Intangible assets are initially recognised at cost. Subsequent to initial recognition, they are carried at cost less any accumulated amortisation and any accumulated impairment losses.

*(xvi) Segment reporting*

Entities whose equity or debt securities are publicly traded and are in the process of issuing equity or debt securities in a public securities market must apply IAS No. 14 “Segment reporting”.

An entity reports information for business segments and for geographical segments indicating the types of products and services included in each reported business segment and the composition of each reported geographical segment.

The reporting format of the Group is business segments and is identified by the entity’s internal organisational and management structure and its system of internal financial reporting to senior management.

*(xvii) Provisions*

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

#### 4. Business segments

Six month period to 30 June 2005 (audited)

	Residential business \$	Commercial business \$	Restaurant business \$	Other \$	Eliminations \$	Consolidated \$
<b>Revenue</b>						
Sales . . . . .	424,704	1,482,043	2,072,163	—	—	3,978,910
Inter-segment . . . . .	—	—	—	—	(1,147,188)	(1,147,188)
<b>Total revenue</b> . . . . .	424,704	1,482,043	2,072,163	—	(1,147,188)	2,831,722
Cost of sales . . . . .	(228,164)	(451,218)	(1,074,898)	—	223,385	(1,530,895)
<b>Result</b>						
Segment result . . . . .	196,540	1,030,825	997,265	—	(923,803)	1,300,827
Income and expenses . . . . .	(510,949)	(1,047,970)	(1,484,996)	(51,767)	771,974	(2,323,708)
Increase in fair value of investment property . . . . .	—	82,038,674	—	—	—	82,038,674
(Loss)/profit from operations . . . . .	(314,409)	82,021,529	(487,731)	(51,767)	(151,829)	81,015,793
Finance expenses . . . . .	(6,606)	(160,348)	—	(78,193)	—	(245,147)
Finance income . . . . .	145,888	362,528	8,908	34,070	—	551,394
Share of loss from associates . . . . .	(14,363)	(394)	—	(7,255)	—	(22,012)
Income taxes . . . . .	—	(20,525,815)	(2,716)	(867)	—	(20,529,398)
	(189,490)	61,697,500	(481,539)	(104,012)	(151,829)	60,770,630
<b>Adjustments due to consolidation of the Group:</b>						
Negative goodwill . . . . .						1,149,787
<b>Profit for the period</b> . . . . .						61,920,417
	<b>Residential business \$</b>	<b>Commercial business \$</b>	<b>Restaurant business \$</b>	<b>Other \$</b>	<b>Eliminations \$</b>	<b>Consolidated \$</b>
<b>Other information</b>						
Segment assets . . . . .	9,913,646	106,987,070	3,901,990	17,756,688	(19,143,124)	119,416,270
Segment liabilities . . . . .	(9,970,935)	(24,922,833)	(649,600)	(7,101,938)	6,304,146	(36,341,160)
Depreciation . . . . .	13,160	67,368	224,075	559	—	305,162
Amortisation . . . . .	—	—	31,242	2,660	—	33,902
Capital expenditure . . . . .	29,312	2,538,419	989,759	—	—	3,557,490

The Group disposed of its Restaurant business post year-end (see Notes 12 and 13) and as such this segment has been treated as a discontinued activity.

Year ended 31 December 2004 (audited)

	<b>Residential business \$</b>	<b>Commercial business \$</b>	<b>Restaurant business \$</b>	<b>Other \$</b>	<b>Eliminations \$</b>	<b>Consolidated \$</b>
<b>Revenue</b>						
Sales . . . . .	42,704	2,565,944	3,129,229	—	—	5,737,877
Inter-segment sales . . . . .	—	—	—	—	(386,702)	(386,702)
<b>Total revenue</b> . . . . .	42,704	2,565,944	3,129,229	—	(386,702)	5,351,175
Cost of sales . . . . .	(4)	(562,927)	(1,503,357)	—	—	(2,066,288)
<b>Result</b>						
Segment result . . . . .	42,700	2,003,017	1,625,872	—	(386,702)	3,284,887
Income and expenses . . . . .	(778,803)	(1,926,094)	(2,210,238)	(82,750)	386,702	(4,611,183)
(Loss)/profit from operations . . . . .	(736,103)	76,923	(584,366)	(82,750)	—	(1,326,296)
Finance expenses . . . . .	(465)	(168,064)	—	(39,774)	—	(208,303)
Finance income . . . . .	1,730	3,636	—	208,176	2,005	215,547
Share of loss from associates . . . . .	(12,313)	—	—	(105,659)	—	(117,972)
Income taxes . . . . .	—	(81,268)	(4,152)	—	—	(85,420)
	(747,151)	(168,773)	(588,518)	(20,007)	2,005	(1,522,444)
<b>Adjustments due to the consolidation of the Group:</b>						
Negative goodwill . . . . .						2,646,117
<b>Profit for the year</b> . . . . .						<u>1,123,673</u>
<b>Other information</b>						
Segment assets . . . . .	3,752,598	20,820,108	3,829,224	14,059,668	(15,458,246)	27,003,352
Segment liabilities . . . . .	(3,610,340)	(4,624,598)	(249,737)	(3,613,426)	2,993,849	(9,104,252)
Depreciation . . . . .	9,941	187,139	458,084	337	—	655,501
Amortisation . . . . .	—	—	79,002	3,847	—	82,849
Capital expenditure . . . . .	34,347	2,163,816	2,572,012	17	—	4,770,192

Six month period to 30 June 2004 (audited)

	<b>Residential business \$</b>	<b>Commercial business \$</b>	<b>Restaurant business \$</b>	<b>Other \$</b>	<b>Eliminations \$</b>	<b>Consolidated \$</b>
<b>Revenue</b>						
Sales . . . . .	333	1,177,505	1,336,811	—	—	2,514,649
Inter-segment sales . . . . .	—	—	—	—	(115,947)	(115,947)
<b>Total revenue</b> . . . . .	<b>333</b>	<b>1,177,505</b>	<b>1,336,811</b>	<b>—</b>	<b>(115,947)</b>	<b>2,398,702</b>
Cost of sales . . . . .	—	(227,640)	(657,634)	—	—	(885,274)
<b>Result</b>						
Segment result . . . . .	333	949,865	679,177	—	(115,947)	1,513,428
Income and expenses . . . . .	(378,697)	(703,346)	(890,058)	(24,433)	115,947	(1,880,587)
(Loss)/profit from operations . . . . .	(378,364)	246,519	(210,881)	(24,433)	—	(367,159)
Finance expenses . . . . .	(465)	(137,451)	—	(2,820)	—	(140,736)
Finance income . . . . .	1,707	1,603	—	208,040	1,233	212,583
Share of loss from associates . . . . .	(2,334)	—	—	(4)	—	(2,338)
Income taxes . . . . .	—	(30,376)	(1,808)	—	—	(32,184)
	(379,456)	80,295	(212,689)	180,783	1,233	(329,834)
<b>Adjustments due to consolidation of the Group:</b>						
Negative goodwill . . . . .						2,189,631
<b>Profit for the period</b> . . . . .						<u>1,859,797</u>
<b>Other information</b>						
Segment assets . . . . .	3,010,302	21,063,327	4,176,068	13,866,848	(13,751,066)	28,365,479
Segment liabilities . . . . .	(2,682,320)	(6,071,548)	(231,792)	(3,242,555)	2,015,876	(10,212,339)
Depreciation . . . . .	4,844	60,675	339,781	193	—	405,493
Amortisation . . . . .	—	—	49,265	1,993	—	51,258
Capital expenditure . . . . .	23,742	994,852	1,354,488	17	—	2,373,099

## 5. Financial income, net

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Interest income .....	95	991	329
Exchange gains .....	1,796	2,003	343,017
Gains from sale of unlisted securities .....	207,996	206,348	137,551
	<u>209,887</u>	<u>209,342</u>	<u>480,897</u>
Interest expense .....	(137,694)	(201,534)	(174,650)
Exchange losses .....	(346)	(564)	—
	<u>(138,040)</u>	<u>(202,098)</u>	<u>(174,650)</u>
Net .....	<u>71,847</u>	<u>7,244</u>	<u>306,247</u>

## 6. Profit before tax

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Profit before taxation is stated after crediting:			
Profit on disposal of investments .....	207,996	206,348	137,551
Interest receivable .....	95	991	329
and after charging:			
Directors' emoluments (note 7) .....	70,255	144,029	133,701
Employee costs (note 8) .....	564,308	1,414,356	1,048,258
Interest payable .....	137,694	201,534	174,650
Loss on disposal of fixed assets .....	254	71,998	45,221

## 7. Directors' emoluments

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Executive .....	68,321	140,163	131,005
Non-executive .....	1,934	3,866	2,696
	<u>70,255</u>	<u>144,029</u>	<u>133,701</u>

## 8. Personnel expenses and average number of employees

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Wages and salaries .....	376,926	947,300	662,149
Other benefits .....	103	233	57,824
State pension fund contributions .....	117,607	288,509	208,551
Other contributions .....	69,396	177,417	118,977
Redundancy payments .....	276	897	757
Total .....	<u>564,308</u>	<u>1,414,356</u>	<u>1,048,258</u>
The average number of employees for the period/year was: .....	<u>447</u>	<u>568</u>	<u>602</u>



## 9. Property plant and equipment

	Land and buildings \$	Buildings under construction \$	Machinery \$	Furniture and fittings \$	Motor vehicles \$	Computer equipment \$	Investment property under development \$	Total \$
<b>Cost/revaluation</b>								
<b>Balance as at 1 January 2004</b> . . . . .	230,791	8,199	—	223,061	237,947	67,782	—	767,780
Effect of foreign currency translation . . . .	467	17	—	453	483	138	—	1,558
Additions . . . . .	352,914	145,086	748,711	158,096	43,965	43,229	19,518	1,511,519
Disposals . . . . .	(231,258)	—	(157)	(45,700)	—	(1,482)	—	(278,597)
<b>Balance as at 30 June 2004</b> . . . . .	<u>352,914</u>	<u>153,302</u>	<u>748,554</u>	<u>335,910</u>	<u>282,395</u>	<u>109,667</u>	<u>19,518</u>	<u>2,002,260</u>
<b>Accumulated depreciation</b>								
<b>Balance as at 1 January 2004</b> . . . . .	8,546	—	—	55,510	41,885	20,606	—	126,547
Effect of foreign currency translation . . . .	18	—	—	112	85	41	—	256
For the period . . . . .	17,755	—	279,811	52,471	38,738	16,718	—	405,493
On disposals . . . . .	(8,564)	—	(73)	(8,071)	—	(453)	—	(17,161)
<b>Balance as at 30 June 2004</b> . . . . .	<u>17,755</u>	<u>—</u>	<u>279,738</u>	<u>100,022</u>	<u>80,708</u>	<u>36,912</u>	<u>—</u>	<u>515,135</u>
<b>Net book value</b>								
<b>As at 30 June 2004</b> . . . . .	<u>335,159</u>	<u>153,302</u>	<u>468,816</u>	<u>235,888</u>	<u>201,687</u>	<u>72,755</u>	<u>19,518</u>	<u>1,487,125</u>
<b>As at 31 December 2003</b> . . . . .	<u>222,245</u>	<u>8,199</u>	<u>—</u>	<u>167,551</u>	<u>196,062</u>	<u>47,176</u>	<u>—</u>	<u>641,233</u>

	Land and buildings \$	Buildings under construction \$	Machinery \$	Furniture and fittings \$	Motor vehicles \$	Computer equipment \$	Investment property under development \$	Total \$
<b>Cost/revaluation</b>								
<b>Balance as at 1 January 2004</b> . . . . .	230,791	8,199	—	223,061	237,947	67,782	—	767,780
Effect of foreign currency translation . . . . .	1,135	8,856	—	1,098	1,171	334	58	12,652
Additions . . . . .	1,077,142	152,847	1,153,256	333,769	287,954	56,525	711,746	3,773,239
Disposals . . . . .	(231,926)	—	(158)	(186,084)	(106,966)	(50,094)	—	(575,228)
<b>Balance as at 31 December 2004</b> . . . . .	<u>1,077,142</u>	<u>169,902</u>	<u>1,153,098</u>	<u>371,844</u>	<u>420,106</u>	<u>74,547</u>	<u>711,804</u>	<u>3,978,443</u>
<b>Accumulated depreciation</b>								
<b>Balance as at 1 January 2004</b> . . . . .	8,546	—	—	55,510	41,885	20,606	—	126,547
Effect of foreign currency translation . . . .	42	—	—	273	205	101	—	621
For the year . . . . .	28,337	—	356,765	175,252	67,975	27,172	—	655,501
On disposals . . . . .	(8,588)	—	(72)	(80,310)	(41,605)	(22,773)	—	(153,348)
<b>Balance as at 31 December 2004</b> . . . . .	<u>28,337</u>	<u>—</u>	<u>356,693</u>	<u>150,725</u>	<u>68,460</u>	<u>25,106</u>	<u>—</u>	<u>629,321</u>
<b>Net book value</b>								
<b>As at 31 December 2004</b> . . . . .	<u>1,048,805</u>	<u>169,902</u>	<u>796,405</u>	<u>221,119</u>	<u>351,646</u>	<u>49,441</u>	<u>711,804</u>	<u>3,349,122</u>
<b>As at 31 December 2003</b> . . . . .	<u>222,245</u>	<u>8,199</u>	<u>—</u>	<u>167,551</u>	<u>196,062</u>	<u>47,176</u>	<u>—</u>	<u>641,233</u>

## 9. Property plant and equipment (continued)

	Land and buildings \$	Buildings under construction \$	Machinery \$	Furniture and fittings \$	Motor vehicles \$	Computer equipment \$	Investment property under development \$	Total \$
<b>Cost/revaluation</b>								
<b>Balance as at 1 January 2005</b> . . . . .	1,077,142	169,902	1,153,098	371,844	420,106	74,547	711,804	3,978,443
Effect of foreign currency translation . . . . .	53,357	8,416	57,119	18,452	20,810	3,693	35,259	197,106
Revaluation . . . . .	—	—	—	—	—	—	65,903,529	65,903,529
Additions . . . . .	67,807	635,838	81,384	238,390	80,709	37,254	7,020	1,148,402
Disposals . . . . .	—	—	(787)	(11,865)	(138,698)	(6,920)	—	(158,270)
<b>Balance as at 30 June 2005</b> . . . . .	<u>1,198,306</u>	<u>814,156</u>	<u>1,290,814</u>	<u>616,821</u>	<u>382,927</u>	<u>108,574</u>	<u>66,657,612</u>	<u>71,069,210</u>
<b>Accumulated depreciation</b>								
<b>Balance as at 1 January 2005</b> . . . . .	28,337	—	356,693	150,725	68,460	25,106	—	629,321
Effect of foreign currency translation . . . . .	1,405	—	17,669	7,465	3,392	1,244	—	31,175
For the period . . . . .	28,350	—	139,148	91,181	33,704	12,779	—	305,162
On disposals . . . . .	—	—	(547)	(12,667)	(59,727)	(2,661)	—	(75,602)
<b>Balance as at 30 June 2005</b> . . . . .	<u>58,092</u>	<u>—</u>	<u>512,963</u>	<u>236,704</u>	<u>45,829</u>	<u>36,468</u>	<u>—</u>	<u>890,056</u>
<b>Net book value</b>								
<b>As at 30 June 2005</b> . . . . .	<u>1,140,214</u>	<u>814,156</u>	<u>777,851</u>	<u>380,117</u>	<u>337,098</u>	<u>72,106</u>	<u>66,657,612</u>	<u>70,179,154</u>
<b>As at 31 December 2004</b> . . . . .	<u>1,048,805</u>	<u>169,902</u>	<u>796,405</u>	<u>221,119</u>	<u>351,646</u>	<u>49,441</u>	<u>711,804</u>	<u>3,349,122</u>

Property, plant and equipment is stated at cost except investment property under development which is stated at fair value at 30 June 2005.

## 10. Intangible assets

	Computer software \$	Patents, trademarks and licences \$	Total \$
<b>Cost</b>			
<b>Balance as at 1 January 2004</b> . . . . .	12,433	—	12,433
Effect of foreign currency translation . . . . .	30	845	875
Additions . . . . .	<u>3,113</u>	<u>591,183</u>	<u>594,296</u>
<b>Balance as at 30 June 2004</b> . . . . .	<u>15,576</u>	<u>592,028</u>	<u>607,604</u>
<b>Accumulated amortisation</b>			
<b>Balance as at 1 January 2004</b> . . . . .	2,511	—	2,511
Effect of foreign currency translation . . . . .	8	71	79
For the period . . . . .	<u>1,993</u>	<u>49,265</u>	<u>51,258</u>
<b>Balance as at 30 June 2004</b> . . . . .	<u>4,512</u>	<u>49,336</u>	<u>53,848</u>
<b>Net book value</b>			
<b>As as at 30 June 2004</b> . . . . .	<u>11,064</u>	<u>542,692</u>	<u>553,756</u>
<b>As as at 31 December 2003</b> . . . . .	<u>9,922</u>	<u>—</u>	<u>9,922</u>

10. Intangible assets (continued)

	Computer software \$	Patents, trademarks and licences \$	Total \$
<b>Cost</b>			
<b>Balance as at 1 January 2004</b> .....	12,433	—	12,433
Effect of foreign currency translation .....	87	2,555	2,642
Additions.....	17,793	593,021	610,814
Disposals .....	(627)	—	(627)
<b>Balance as at 31 December 2004</b> .....	<u>29,686</u>	<u>595,576</u>	<u>625,262</u>
<b>Accumulated amortisation</b>			
<b>Balance as at 1 January 2004</b> .....	2,511	—	2,511
Effect of foreign currency translation .....	23	239	262
For the year .....	<u>3,847</u>	<u>79,002</u>	<u>82,849</u>
<b>Balance as at 31 December 2004</b> .....	<u>6,381</u>	<u>79,241</u>	<u>85,622</u>
<b>Net book value</b>			
<b>As as at 31 December 2004</b> .....	<u>23,305</u>	<u>516,335</u>	<u>539,640</u>
<b>As as at 31 December 2003</b> .....	<u>9,922</u>	<u>—</u>	<u>9,922</u>
	<b>Computer software \$</b>	<b>Patents, trademarks and licences \$</b>	<b>Total \$</b>
<b>Cost</b>			
<b>Balance as at 1 January 2005</b> .....	29,686	595,576	625,262
Effect of foreign currency translation .....	—	29,502	29,502
Additions.....	<u>39,131</u>	<u>—</u>	<u>39,131</u>
<b>Balance as at 30 June 2005</b> .....	<u>68,817</u>	<u>625,078</u>	<u>693,895</u>
<b>Accumulated amortisation</b>			
<b>Balance as at 1 January 2005</b> .....	6,381	79,241	85,622
Effect of foreign currency translation .....	392	3,937	4,329
For the period.....	<u>2,660</u>	<u>31,242</u>	<u>33,902</u>
<b>Balance as at 30 June 2005</b> .....	<u>9,433</u>	<u>114,420</u>	<u>123,853</u>
<b>Net book value</b>			
<b>As at 30 June 2005</b> .....	<u>59,384</u>	<u>510,658</u>	<u>570,042</u>
<b>As at 31 December 2004</b> .....	<u>23,305</u>	<u>516,335</u>	<u>539,640</u>

Patents, trademarks and licences represent the trademark “Shvydko”.

The trademark “Shvydko” was launched in conjunction with the development of the fast-food chain business of the Group. The name in Ukrainian means “Fast” and symbolises the concept of introducing the national equivalent of western fast-food businesses in Ukraine. The management believes that this trademark is one of the most recognisable trademarks among all fast-food operators in Ukraine.

## 11. Goodwill

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Cost of investment.....	—	81,286	1,163,268	2,626,027
Less: Group share of net liabilities/(assets) acquired.....	—	61,080	(502,739)	197,879
	—	142,366	660,529	2,823,906
<b>Negative goodwill</b>				
Cost of investment.....	7,318,965	8,307,073	8,482,503	11,108,530
Less: Group share of net assets acquired ..	(15,181,547)	(18,359,286)	(18,991,202)	(22,767,016)
	(7,862,582)	(10,052,213)	(10,508,699)	(11,658,486)
Income statement.....	7,862,582	2,189,631	2,646,117	1,149,787

## 12. Investments in subsidiary undertakings

Information relating to the Group as at the balance sheet date

<u>Company name</u>	<u>Country of Business</u>	<u>As at 31 December 2003 Unaudited Ownership interest</u>	<u>As at 30 June 2004 Audited Ownership interest</u>	<u>As at 31 December 2004 Audited Ownership interest</u>	<u>As at 30 June 2005 Audited Ownership interest</u>
LLC “Kvadrat Ploscha Slavy”	Ukraine	78.50%	78.50%	78.50%	78.50%
LLC “Kvadrat Likhachovo”	Ukraine	100.00%	100.00%	100.00%	100.00%
LLC “Kvadrat-Maydan”	Ukraine	100.00%	100.00%	100.00%	100.00%
CJSC IC “XXI Stolittya”	Ukraine	100.00%	100.00%	100.00%	100.00%
LLC “Kvadrat-Ukraina”	Ukraine	95.00%	95.00%	95.00%	100.00%
LLC “Mayster-Invest”	Ukraine	—	—	—	100.00%
LLC “Kvadrat-Shulyavka”	Ukraine	54.00%	54.00%	54.00%	54.00%
LLC “Kvadrat-Khreschatik”	Ukraine	99.85%	99.85%	99.85%	99.85%
OJSC “Aurora”	Ukraine	—	—	59.06%	65.99%
LLC “XXI Stolittya”	Ukraine	100.00%	100.00%	100.00%	100.00%
LLC “Soyuz-Inform”	Ukraine	60.01%	60.01%	60.01%	60.01%
LLC “Kvadrat-Hnata Yury”	Ukraine	50.00%	50.00%	50.00%	50.00%
LLC “Soyuz Premier”	Ukraine	59.00%	59.00%	59.00%	59.00%
LLC “Akropol”	Ukraine	79.50%	79.50%	79.50%	79.50%
LLC “Zhytlo XXI Stolittya”	Ukraine	60.00%	74.00%	74.00%	74.00%
CJSC “Ukruniversalbud”	Ukraine	—	37.00%	37.00%	59.20%
LLC “Arkhitectura Lyuks”	Ukraine	59.40%	74.26%	74.26%	74.26%
LLC “Budmodern”	Ukraine	60.40%	74.26%	74.26%	74.26%
LLC “Garant-Invest”	Ukraine	—	74.26%	74.26%	74.26%
LLC “Grand Bud”	Ukraine	59.40%	74.26%	74.26%	74.26%
LLC “Dom i K”	Ukraine	59.40%	74.26%	74.26%	74.26%
LLC “Eurogradobud”	Ukraine	59.40%	36.26%	36.26%	36.26%
LLC “Zhytlokom”	Ukraine	60.40%	74.26%	74.26%	74.26%
LLC “Lavrski Dzvony”	Ukraine	—	74.26%	74.26%	74.26%
LLC “Megagrad”	Ukraine	36.00%	44.40%	44.40%	44.40%
LLC “Pyatyj Element”	Ukraine	59.40%	74.26%	74.26%	74.26%
LLC “Rielter-Elit”	Ukraine	59.40%	74.26%	74.26%	74.26%
LLC “Svyatograd”	Ukraine	54.00%	66.60%	66.60%	66.60%
LLC “Sotabud”	Ukraine	54.00%	66.60%	66.60%	66.60%

## 12. Investments in subsidiary undertakings (continued)

Information relating to the Group as at the balance sheet date

Company name	Country of Business	As at 31 December 2003 Unaudited Ownership interest	As at 30 June 2004 Audited Ownership interest	As at 31 December 2004 Audited Ownership interest	As at 30 June 2005 Audited Ownership interest
<b>Brought forward</b>					
LLC "Elit Servis".....	Ukraine	48.00%	59.20%	59.20%	59.20%
LLC "Elitne Zhytlo".....	Ukraine	60.40%	74.26%	74.26%	74.26%
CJSC "Rozvytok XXI Stolittya".....	Ukraine	—	74.00%	74.00%	74.00%
LLC "Retail Management Group".....	Ukraine	80.00%	80.00%	37.00%	37.00%
LLC "Ukrmedbud".....	Ukraine	—	66.60%	66.60%	66.60%
LLC "Megapolis XXI Stolittya".....	Ukraine	59.00%	59.00%	59.00%	59.00%
LLC "Budekoteks -2002".....	Ukraine	59.04%	59.04%	59.04%	59.04%
LLC "Capital-Market".....	Ukraine	59.04%	59.04%	59.04%	59.04%
LLC "Trest Forum".....	Ukraine	59.04%	59.04%	59.04%	59.04%
LLC "Evropeyska Ploscha".....	Ukraine	—	74.26%	74.26%	74.26%
LLC "Capital Development".....	Ukraine	59.00%	59.00%	59.00%	59.00%
LLC "Kyivsky Kashtany".....	Ukraine	60.40%	74.26%	74.26%	74.26%
LLC "Era-T".....	Ukraine	—	74.26%	74.26%	74.26%
LLC "Prominvestgroup".....	Ukraine	—	37.00%	37.00%	37.00%
CJSC "Prominvestgroup 1".....	Ukraine	—	37.63%	37.63%	37.63%
CJSC "Shvydko-Ukraina".....	Ukraine	—	51.00%	51.00%	51.00%
Mikasal Ventures Limited.....	Cyprus	—	—	100.00%	100.00%
LLC "Mriya-invest".....	Ukraine	60.40%	74.26%	74.26%	50.00%
LLC "Slovyanskiy".....	Ukraine	90.00%	90.00%	90.00%	90.00%

### Subsequent events

CJSC "Rozvytok XXI Stolittya" sold to Mrs Korniychuk Lyudmila Oleksandrivna a 50% share in LLC "Retail Management Group" for UAH 500,000 on 21 October 2005.

LLC "Kvadrat Ukraina" purchased a 41% share in LLC "Soyuz Premier" from Argio Limited for UAH 310,527 on 7 November 2005.

LLC "XXI Stolittya" sold to Mr Lev Partskhaladze a 90% share of LLC "Slovyanskiy" for UAH 16,650 on 2 November 2005.

XXI Century Investments Public Limited sold a 78.5% share in LLC "Kvadrat Ploscha Slavy" to Lutsk Metalopostachservis LLC for UAH 29,987,500.

XXI Century Investments Public Limited sold to Karpatska Naftova Kampanija LLC a 54% share in LLC "Kvadrat Shulyavka" for UAH 8,441,868 on 30 September 2005.

XXI Century Investments Public Limited purchased from Starcare Limited a 50% share in LLC "Mriya-invest" for US\$4,000,000 on 14 November 2005.

XXI Century Investments Public Limited sold its 51% share in CJSC "Shvydko – Ukraina" to LLC XXI Century Brokerage (a related party as defined in note 28) for \$1.6 million on 30 November 2005.

### **13. Investments in associates**

	<b>As at 30 June 2004 Audited \$</b>	<b>As at 31 December 2004 Audited \$</b>	<b>As at 30 June 2005 Audited \$</b>
<b>Cost of investment as at 1 January</b> .....	3,594,966	3,594,966	2,767,529
Exchange differences on translation to the presentation currency .....	9,606	38,898	138,392
Share capital subscribed .....	173,169	322,198	3,957
Share of loss from associates.....	(2,338)	(117,972)	(22,012)
Transfer to cost of investment in subsidiaries .....	(59,833)	(1,070,561)	(19,734)
Disposals/transfers.....	<u>—</u>	<u>—</u>	<u>(47,159)</u>
<b>Cost of investment as at 30 June/31 December</b> .....	<u>3,715,570</u>	<u>2,767,529</u>	<u>2,820,973</u>

### 13. Investments in associates (continued)

<u>Company name</u>	<u>Country of Business</u>	<u>As at 31 December 2003 Unaudited Ownership interest</u>	<u>As at 30 June 2004 Audited Ownership interest</u>	<u>As at 31 December 2004 Audited Ownership interest</u>	<u>As at 30 June 2005 Audited Ownership interest</u>
CJSC "Ukruniversalbud" . . . . .	Ukraine	—	37.00%	37.00%	—
LLC "Eurogradobud" . . . . .	Ukraine	—	36.26%	36.26%	36.26%
LLC "Tsytdel Plyus" . . . . .	Ukraine	39.60%	48.84%	48.84%	48.84%
LLC "Elit Servis" . . . . .	Ukraine	48.00%	—	—	—
LLC "Maydan-Plaza" . . . . .	Ukraine	—	—	37.00%	37.00%
LLC "Getman & Co" . . . . .	Ukraine	30.00%	30.00%	30.00%	30.00%
LLC "Golden Prince" . . . . .	Ukraine	10.00%	15.00%	20.00%	20.00%
OJSC "Avrora" . . . . .	Ukraine	40.00%	40.00%	—	—
LLC "Mezokred Holding" . . . . .	Ukraine	47.20%	47.20%	47.20%	47.20%
LLC "Biblioteca" . . . . .	Ukraine	20.00%	20.00%	40.00%	—
LLC "Bud servis XXI Stolittya" . . . . .	Ukraine	40.00%	40.00%	40.00%	40.00%
CJSC "Taras Bulba" . . . . .	Ukraine	20.00%	40.00%	40.00%	—
LLC "XXI Century Brokerage" . . . . .	Ukraine	—	30.00%	—	—
GAK "ARTEM" . . . . .	Ukraine	40.00%	40.00%	40.00%	40.00%
LLC "Autobudservice" . . . . .	Ukraine	40.00%	40.00%	40.00%	40.00%
LLC "Prominvestgroup" . . . . .	Ukraine	30.00%	—	—	—
CJSC "Shvydko – Ukraina" . . . . .	Ukraine	8.00%	—	—	—
LLC "Interproject" . . . . .	Ukraine	27.50%	27.50%	27.50%	27.50%
LLC "Kvadrat Druzhba Narodov" . . . . .	Ukraine	37.23%	37.23%	37.23%	37.23%

<u>Company name</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
CJSC "Ukruniversalbud" . . . . .	—	19,363	19,734	—
LLC "Eurogradobud" . . . . .	—	3,098	3,157	3,265
LLC "Tsytdel Plyus" . . . . .	2,288	2,293	2,337	2,416
LLC "Elit Servis" . . . . .	14,990	—	—	—
LLC "Maydan-Plaza" . . . . .	—	—	—	3,957
LLC "Getman & Co" . . . . .	67,454	67,596	68,891	71,230
LLC "Golden Prince" . . . . .	293,988	419,504	575,619	595,171
OJSC "Avrora" . . . . .	1,010,728	1,012,847	—	—
LLC "Mezokred Holding" . . . . .	449,696	450,638	459,270	474,870
LLC "Biblioteca" . . . . .	1,733	1,737	3,540	—
LLC "Bud servis XXI Stolittya" . . . . .	3,466	3,474	3,540	3,657
CJSC "Taras Bulba" . . . . .	21,361	41,250	42,040	—
LLC "XXI Century Brokerage" . . . . .	—	5,633	—	—
GAK "ARTEM" . . . . .	1,837	2,028	2,450	2,533
LLC "Autobudservice" . . . . .	1,756	1,761	1,795	1,855
LLC "Prominvestgroup" . . . . .	12,015	—	—	—
CJSC "Shvydko – Ukraina" . . . . .	32,828	—	—	—
LLC "Interproject" . . . . .	1,546	1,549	1,579	—
LLC "Kvadrat Druzhba Narodov" . . . . .	<u>1,679,280</u>	<u>1,682,799</u>	<u>1,583,577</u>	<u>1,662,019</u>
	<u>3,594,966</u>	<u>3,715,570</u>	<u>2,767,529</u>	<u>2,820,973</u>

#### Subsequent events

On 30 September 2005 LLC "Kvadrat Druzhba Narodov" was disposed for UAH 8,962,222 to Western Regional Investment Company.

Mr Lev Partskhaladze bought the Group's 30% share in LLC "Getman & Co" for UAH 360,000 on 2 November 2005.



**14. Investment property**

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
<b>Balance as at 1 January</b> .....	11,646,003	11,646,003	12,138,555
Exchange differences on translation to the presentation currency .....	23,639	59,835	601,285
Additions.....	861,580	996,893	2,409,088
Transfers .....	(11,065)	(564,176)	(46,983)
Surplus on revaluation .....	<u>—</u>	<u>—</u>	<u>16,135,145</u>
<b>Balance as at 30 June / 31 December</b> .....	<u>12,520,157</u>	<u>12,138,555</u>	<u>31,237,090</u>

The carrying and market value of the investment properties are as follows:

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Carrying amount .....	11,646,003	12,520,157	12,138,555	31,237,090
Market value as per independent professional valuer .....	—	—	—	31,237,090

On 11 November 2005 investment property was valued by DTZ Kiev B.V., an independent company being part of the DTZ Zadelhoff Tie Leung Central and Eastern European Network.

**15. Long-term receivables**

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Other amounts receivable .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>593,474</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>593,474</u>

## 16. Inventories

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
<b>Finished goods</b>				
-at net realisable value .....	18,267	80,646	174,590	165,746
-at cost .....	12,494	55,158	119,633	113,573
	<u>12,494</u>	<u>55,158</u>	<u>119,633</u>	<u>113,573</u>
<b>Raw materials</b>				
-at net realisable value .....	25,805	62,248	56,595	49,660
-at cost .....	17,682	42,654	38,780	34,028
	<u>17,682</u>	<u>42,654</u>	<u>38,780</u>	<u>34,028</u>
<b>Work in progress</b>				
-at net realisable value .....	29,093	2,101,505	3,404,364	6,479,383
-at cost .....	19,935	1,440,002	2,332,752	4,439,829
	<u>19,935</u>	<u>1,440,002</u>	<u>2,332,752</u>	<u>4,439,829</u>
	<u>50,111</u>	<u>1,537,814</u>	<u>2,491,165</u>	<u>4,587,430</u>

## 17. Other current assets

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
VAT receivable .....	1,547,567	1,547,722	518,898	359,002
Non trade debtors .....	1,319,352	1,111,003	725,266	2,375,806
Prepayments .....	509,695	2,259,061	2,286,866	2,971,806
	<u>3,376,614</u>	<u>4,917,786</u>	<u>3,531,030</u>	<u>5,706,614</u>

## 18. Cash and cash equivalents

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Cash in hand .....	1	11,672	9,568	18,872
Cash at bank .....	187,040	3,478,430	1,441,580	773,950
	<u>187,041</u>	<u>3,490,102</u>	<u>1,451,148</u>	<u>792,822</u>

## 19. Share capital

	CYP £	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
<b>Authorised</b>					
1,000 Ordinary shares of CYP £1 each .....	1,000	1,728	1,728	1,728	1,728
	<u>1,000</u>	<u>1,728</u>	<u>1,728</u>	<u>1,728</u>	<u>1,728</u>
<b>Issued and fully paid</b>					
1,000 Ordinary shares of CYP £1 each .....	1,000	1,728	1,728	1,728	1,728
	<u>1,000</u>	<u>1,728</u>	<u>1,728</u>	<u>1,728</u>	<u>1,728</u>

## 20. Reserves

	Revaluation Reserve \$	Exchange Fluctuation reserve \$	Total \$
<b>Balance as at 1 January 2004</b> .....	—	—	—
Translation differences .....	—	55,885	55,885
<b>Balance as at 30 June 2004</b> .....	<u>—</u>	<u>55,885</u>	<u>55,885</u>
<b>Balance as at 1 January 2004</b> .....	—	—	—
Translation differences .....	—	(85,465)	(85,465)
<b>Balance as at 31 December 2004</b> .....	—	(85,465)	(85,465)
Surplus on revaluation of properties .....	82,038,674	—	82,038,674
Translation differences .....	—	1,418,549	1,418,549
Deferred tax .....	(20,509,668)	—	(20,509,668)
Transfers to minority interests .....	(14,573,067)	—	(14,573,067)
<b>Balance as at 30 June 2005</b> .....	<u>46,955,939</u>	<u>1,333,084</u>	<u>48,289,023</u>

## 21. Accumulated profits

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
<b>Balance as at 1 January</b> .....	7,814,039	7,814,039	9,372,488
Net profit for the period/year .....	<u>1,949,492</u>	<u>1,558,449</u>	<u>705,718</u>
<b>Balance as at 30 June / 31 December</b> .....	<u>9,763,531</u>	<u>9,372,488</u>	<u>10,078,206</u>

## 22. Long term debt

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
<b>Secured</b>				
Bank loans .....	1,525,000	707,142	—	2,469,204
Debenture loans.....	—	—	1,432,125	2,319,466
Total secured loans .....	<u>1,525,000</u>	<u>707,142</u>	<u>1,432,125</u>	<u>4,788,670</u>
<b>Unsecured</b>				
Loans from related companies ....	303,106	1,011,072	1,346,572	3,017,072
Other long term loans .....	—	2,270,511	2,005,504	580,609
Total unsecured loans .....	<u>303,106</u>	<u>3,281,583</u>	<u>3,352,076</u>	<u>3,597,681</u>
Total long term debt.....	1,828,106	3,988,725	4,784,201	8,386,351
Less current portion .....	<u>(100,000)</u>	<u>(707,142)</u>	<u>(2,005,504)</u>	<u>(3,438,832)</u>
	<u>1,728,106</u>	<u>3,281,583</u>	<u>2,778,697</u>	<u>4,947,519</u>

### Bank loans

A loan agreement between Bank “Aval” and LLC “Zhytlo XXI Stolittya” dated 21 April 2005 is secured against property in LLC “Garant-Invest”. The annual interest rate is 15% and the due date is 18 April 2008.

A loan agreement between Bank “Aval” and LLC “Kvadrat Ukraina” dated 11 February 2005 is guaranteed by LLC “Kvadrat Ploscha-Slavy” (amounting to €1,642,000). The annual interest rate is 12.5% and the due date is 8 February 2008.

### Debenture loans

In July 2004 LLC “XXI Stolittya” issued 743,368 debenture loans denominated in UAH with a face value of \$1,821,500. The debenture loans were issued at a discount of \$389,375 and mature between 25-30 September 2007.

In May 2005 LLC “Zhytlo XXI Stolittya” issued 41,096 debenture loans denominated in UAH with a face value of \$812,977. The debenture loans were issued at a discount of \$219,504 and mature on 17 May 2008.

In June 2005 LLC “Garant—Invest” issued 5,468 debenture loans denominated in UAH with a face value of \$108,170. The debenture loans were issued at a premium of \$99,860 and mature on 17 March 2008.

### Loans from related companies

The balance relates to an interest free loan received from a related company, XXI Century Consulting Limited, and is repayable within one year.

## 22. Long term debt (continued)

Repayments of long-term debt are scheduled as follows:

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
within 1 year .....	100,000	707,142	2,005,504	3,438,832
within 2 years .....	—	—	—	2,783,452
within 3 years .....	—	—	1,432,125	1,834,645
within 4 years .....	—	—	—	—
within 5 years .....	—	—	—	—
Thereafter .....	1,728,106	3,281,583	1,346,572	329,422
	<u>1,828,106</u>	<u>3,988,725</u>	<u>4,784,201</u>	<u>8,386,351</u>

## 23. Deferred tax liabilities

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Provision for deferred tax liabilities (note 26) ...	—	383	14,408	20,530,501

## 24. Trade and other payables

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Trade accounts payable .....	448,408	455,856	192,017	419,093
Advances from clients .....	67,588	1,909,761	3,311,630	5,429,575
Non-trade accounts payable .....	2,992,300	3,761,512	758,611	1,417,216
Accrued expenses .....	127,319	64,179	39,919	50,250
Deferred income .....	—	30,760	—	100,822
	<u>3,635,615</u>	<u>6,222,068</u>	<u>4,302,177</u>	<u>7,416,956</u>

## 25. Short term debt

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
<b>Secured</b>				
Bank loans .....	100,000	707,142	—	180,810
Total secured loans .....	100,000	707,142	—	180,810
<b>Unsecured</b>				
Loans from related companies .....	—	—	—	3,017,072
Other long term loans .....	—	—	2,005,504	240,950
Total unsecured loans .....	—	—	2,005,504	3,258,022
Total short-term debt .....	<u>100,000</u>	<u>707,142</u>	<u>2,005,504</u>	<u>3,438,832</u>

## 26. Income taxes

	As at 31 December 2003 Unaudited \$	As at 30 June 2004 Audited \$	As at 31 December 2004 Audited \$	As at 30 June 2005 Audited \$
Income tax payable at 1 January .....	13,093	13,093	13,093	3,466
Current tax expense for the year/period .....	—	31,820	71,026	14,177
	13,093	44,913	84,119	17,643
Amount paid .....	—	(43,750)	(80,653)	(10,291)
Income tax payable at 31 December/30 June....	13,093	1,163	3,466	7,352

Income tax expense consists of the following:

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Current tax expense .....	31,820	71,026	14,177
Deferred tax expense .....	364	14,394	20,515,221
Charge for the period/year .....	32,184	85,420	20,529,398

The reconciliation of the effective tax rate to the statutory tax is as follows:

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
Accounting profit before tax .....	1,891,981	1,209,093	82,449,815
Corporation tax in Ukraine at 25% .....	472,995	302,273	20,612,453
Tax effect of income assessed on a different basis .....	121,377	499,368	209,848
Tax effect of expense not deductible in determining taxable profit .....	(14,780)	(54,692)	(5,456)
Tax effect of negative goodwill arising on consolidation .....	(547,408)	(661,529)	(287,447)
Charge for the period/year .....	32,184	85,420	20,529,398

Components of deferred tax liabilities are as follows:

	Period ended 30 June 2004 Audited \$	Year ended 31 December 2004 Audited \$	Period ended 30 June 2005 Audited \$
<b>Balance as at 1 January</b> .....	—	—	14,408
Deferred tax relating to the origination and reversal of temporary differences .....	364	14,394	5,553
Deferred tax arising on revaluation of investment property ..	—	—	20,509,668
Provision for deferred tax .....	364	14,394	20,515,221
Exchange differences on translation to the presentation currency .....	19	14	872
<b>Balance as at 30 June / 31 December</b> .....	383	14,408	20,530,501

## **27. *Contingent liabilities***

As at the balance sheet dates there were no contingent liabilities.

## **28. *Related party transactions***

Related parties, as defined by IAS No. 24 “Related Party disclosures”, are those counterparties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associated enterprises in which the Group has significant influence and which are neither a subsidiary nor a joint venturer in a venture;
- (c) individuals owning, directly or indirectly, an interest in voting power of the Group that gives them significant influence over the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals;
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person, described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as at 30 June 2005, 31 December 2004 and 30 June 2004.

## 28. Related party transactions (continued)

During the year/period the Group entered into the following transactions with related parties:

	As at 31 December 2003 Unaudited \$	As at/Period ended 30 June 2004 Audited \$	As at/Year ended 31 December 2004 Audited \$	As at/Period ended 30 June 2005 Audited \$
<b>Sales to related parties:</b>				
LLC "Kvadrat Druzhba Narodov" .....	—	11,657	66,347	34,990
LLC "Dinamo lux" .....	—	—	2,199	1,582
	—	11,657	68,546	36,572
<b>Debit balances as at 31 December/30 June</b>				
LLC "Dinamo lux" .....	7,503	3,344	2,201	1,627
<b>Purchases from related parties:</b>				
LLC "Kvadrat Druzhba Narodov" .....	—	4,567	1,544	10,279
LLC "Dinamo lux" .....	—	53,521	29,154	136,551
Mr Lev Partskhaladze .....	—	—	—	30
	—	58,088	30,698	146,860
<b>Credit balances as at 31 December/30 June</b>				
LLC "Kvadrat Druzhba Narodov" .....	—	(1,056)	—	(2,731)
LLC "Kvadrat Lyadskie vorota" .....	(18,739)	(18,777)	—	—
LLC "Dinamo lux" .....	(10,223)	(12,677)	—	(33,479)
	(28,962)	(32,510)	—	(36,210)
<b>Loans between related parties:</b>				
LLC "Kvadrat Druzhba Narodov" .....	—	28,152	28,157	—
LLC "Dinamo lux" .....	—	11,261	11,266	962
	—	39,413	39,423	962
<b>Loan balances as at 31 December/30 June</b>				
LLC "Golden Prince" .....	270,008	58,761	—	—
Mr Lev Partskhaladze .....	(143,676)	(143,968)	—	(151,535)
LLC "Kvadrat Lyadskie vorota" .....	(5,627)	(5,638)	—	—
LLC "Kvadrat galereya Evropeyskaya plosha" ..	11,254	11,277	—	—
LLC "Dinamo lux" .....	16,881	7,518	—	2,967
LLC "Mezokred holding" .....	(405,045)	(405,868)	—	(427,201)
LLC "Kvadrat Druzhba Narodov" .....	(65,648)	—	—	—
	(321,853)	(477,918)	—	(575,769)

## 29. Directors' interests

	As at 31 December 2003 Unaudited %	As at 30 June 2004 Audited %	As at 31 December 2004 Audited %	As at 30 June 2005 Audited %
The direct and indirect interest of directors in the issued share capital of the Company at the balance sheet date were as follows:				
Mr Lev Partskhaladze .....	100	100	100	100



### **30. Fair value of financial instruments**

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS No. 32 “Financial Instruments: Disclosure and Presentation” and IAS No. 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 June 2004, 31 December 2004 and 30 June 2005 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### **Cash and cash equivalents**

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

#### **Trade and other accounts receivable**

The carrying amount of trade and other accounts receivable is a reasonable estimate of their fair value.

#### **Loans issued**

As of 31 December 2004 and 30 June 2005 the fair value of loans issued is US\$ 8,386,351 and US\$ 4,784,201 respectively.

#### **Long term bank loans**

The carrying amount of the long-term borrowings from banks is a reasonable estimate of their fair value.

The interest rates and maturity dates applying to the Group’s long term debt are shown in note 24.

#### **Trade and other accounts payable**

The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

### **31. Subsequent events**

XXI Century Investments Public Limited purchased from Mr Lev Partskhaladze a 99% share in the company LLC “Shvydko — Invest” for US\$ 49,009 on 20 September 2005.

XXI Century Investments Public Limited repaid part of a loan to XXI Century Consulting Ltd amounting to US\$800,000 on 14 November 2005. XXI Century Consulting Ltd is 100% controlled by Lev Partskhaladze.

On 15 November 2005, the following changes to the share capital of the Company were made:

The authorised and issued share capital of the Company was changed so as to be expressed in US Dollars, such that the previous authorised and issued share capital of CYP£1,000 which is divided into 1,000 shares of CYP£1.00 each became US\$2,000, being 2,000 shares of US\$1.00 each.

The authorised and issued share capital of the Company of 2,000 shares of US\$1.00 each was subsequently subdivided into 200,000 shares of US\$0.01 each.

The authorised share capital of the Company was increased from US\$2,000 to US\$400,000 divided into 40,000,000 shares of US\$0.01 each by the creation of 39,800,000 additional shares of US\$0.01 each.

The issued share capital of the Company was increased from US\$2,000 to US\$240,000 represented by 24,000,000 shares of US\$0.01 each by the issue of 23,800,000 additional shares of US\$0.01 each at a premium of US\$6.24.

**PART IX**  
**THE GLOBAL DEPOSITARY RECEIPTS**

**Terms and Conditions of the Global Depositary Receipts**

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are each issued in respect of one ordinary share of par value US\$0.01 each (the “**Shares**”) in XXI CENTURY INVESTMENTS PUBLIC LIMITED (the “**Company**”) pursuant to and subject to an agreement to be dated on or about 16 December 2005, and made between the Company and The Bank of New York in its capacity as depositary (the “**Depositary**”) for the “**Facility**” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the “**Custodian**”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “**Deposited Shares**”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the “**Main Office**” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Master GDR, evidencing GDRs, (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “—Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.*

References in these Conditions to the “**Holder**” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “**Register**”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

**1. Withdrawal of Deposited Property and Further Issues of GDRs**

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depository to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depository of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depository will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depository or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depository may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depository (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depository and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depository (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depository, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depository may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depository) and a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depository shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the “Securities Act”)) and is located outside the United States.*

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the relevant Master GDR by the number of such further GDRs).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of GDRs or Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

## **2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally

or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

### **3. Transfer and Ownership**

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonable believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 22, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

### **6. Distributions other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders

entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## 7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 22, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in U.S. dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date.

If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in U.S. dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Cypriot counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

#### **8. Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem

desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

## **9. Distribution of any Payments**

- 9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 22, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

## **10. Capital Reorganisation**

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

## **11. Withholding Taxes and Applicable Laws**

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cypriot and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has



agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company, and such assistance does not require the Depositary to take any action in conflict with market practice or not in its capacity as Depositary, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

## 12. **Voting Rights**

- 12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 22. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of Deposited Shares.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Cypriot law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Cypriot law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be

deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Cypriot law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless, if the Depositary has so requested, it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Cypriot law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Cypriot law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.
13. **Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 22.

14. **Liability**

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power

- provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 20 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 21, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary (subject to Condition 14.13 below) shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cypriot law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

#### 15. **Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

#### 16. **Depositary's Fees, Costs and Expenses**

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
- (vi) a fee of US\$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (vii) below; and
- (vii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. **Agents**

- 17.1 The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. **The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days’ prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian’s resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 22. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

19. **Resignation and Termination of Appointment of the Depositary**

- 19.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days’ prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days’ prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22.

19.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

## 20. **Termination of Deposit Agreement**

20.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 19 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 22.

20.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

20.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## 21. **Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 21) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 21, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional

Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

## 22. Notices

22.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

22.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

## 23. Reports and Information on the Company

23.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

- (i) in respect of the financial year ending on 31 December 2004 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with generally accepted accounting principles in Cyprus and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
- (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than four months after the end of the period to which they relate; and
- (iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate.

23.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

## 24. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of



such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

#### 25. **Moneys held by the Depositary**

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

#### 26. **Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

#### 27. **Governing Law**

27.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Cypriot law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

27.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed CT Corporation System as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

27.3 The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

27.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

27.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

27.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48<sup>th</sup> Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## **Summary of Provisions Relating to the GDRs While in Master Form**

*The GDRs will initially be evidenced by a single Master GDR in registered form. The Master GDR will be deposited with a common depositary for, and registered in the name of a common nominee for, Euroclear and Clearstream on the date the GDRs are issued. The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.*

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not in part and until exchanged in full is subject to the Conditions and the Deposit Agreement. The Depositary will irrevocably undertake in the Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for the Master GDR to the Holders within 60 days in the event that:

- (i) Euroclear or Clearstream advises the Company in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) Either Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- (iii) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream. Upon any exchange of a Master GDR for GDRs in definitive registered form, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details will be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR will be reduced or increased (as the case may be) accordingly. If the number of GDRs represented by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary under the Deposit Agreement and the Conditions have terminated.

## ***Payments, Distributions and Voting Rights***

Payments of cash dividends and other amounts (including cash distributions) in respect of GDRs represented by the Master GDR will be made by the Depositary through Euroclear and Clearstream on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records of the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

## ***Surrender of GDRs***

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear and Clearstream, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable, and to issue voting instructions, in respect of the Deposited Property represented by such GDRs.

### ***Notices***

For as long as the Master GDR is registered in the name of a common nominee for Euroclear and Clearstream, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream for communication to Holders in substitution for delivery of notices in accordance with Condition 22.

The Master GDR shall be governed by and construed in accordance with English law.

### ***Information relating to the Depositary***

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL.

## **PART X**

### **ADDITIONAL INFORMATION**

#### **1 General**

- 1.1** Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Company's recent activities.
- 1.2** Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the business of the Company.
- 1.3** Save as disclosed in this document, there have been no known material changes in the financial or trading position of the Company since the date to which the latest published audited accounts of the Company were made up.
- 1.4** Save as disclosed in this document, there are no significant recent trends concerning the development of the Company's business since 30 June 2005.
- 1.5** Save as disclosed in this document, the Company has no significant investments in progress. The Company continues to actively seek acquisitions in accordance with its growth and acquisition strategy.
- 1.6** Baker Tilly Proios is a member of the Institute of Certified Public Accountants of Cyprus and members of IGK Ukraine Audit belong to the Audit Union of Ukraine and the Professional Federation of Accountants and Auditors of Ukraine.
- 1.7** The Company assumes no responsibility for the withholding of taxes at source on income from the Shares.

#### **2 The Company**

- 2.1** The Company was incorporated as a limited liability company limited by shares and registered in Cyprus on 2 August 2002 under the name Treebloom Trading Limited by the filing of its original Memorandum and Articles of Association with the Cyprus Registrar of Companies. On 2 December 2003 the Company's name was changed to Twenty First Century Holding (Overseas) Limited. On 1 December 2005, the Company was re-registered as a public company and its name was changed to XXI Century Investments Public Limited.
- 2.2** The Company's registered number is 132218 and its registered office and principal place of business is Themistokli Dervi, 5, Elenion Building, 2<sup>nd</sup> floor, 1066, Nicosia, Cyprus. The telephone number of the registered office is: +357 22 555 800.
- 2.3** The liability of the shareholders of the Company is limited. Under the Cyprus Companies Law, Cap. 113 (the "Companies Law"), a Shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.
- 2.4** The Company is not subject to the UK City Code on Takeovers and Mergers (the "City Code") and the rules governing substantial acquisitions of shares. Accordingly, any person or persons acting in concert will be able to acquire Shares which, when taken together with the Shares already held by them, carry 30 per cent. or more of the voting rights in the Company without being required to make a general offer for the entire issued share capital of the Company. Additionally, any party intending to acquire all or a substantial part of the issued Share capital of the Company will not be obligated to comply with the provisions of the City Code as to announcements and equality of treatment for shareholders as to the value and type of consideration offered, and will not be subjected to the scrutiny and sanctions of the Panel on Takeovers and Mergers.



Ownership by the Company (direct or indirect)	Direct ownership: holds 99.99 per cent. of shares  Indirectly ownership: holds 0.01 per cent. of shares through LLC “Kvadrat-Maydan”
<i>Chairman of the Management Board</i> Appointed by the General Shareholders’ Meeting	Mykola Yerzhakhovskyy
<i>Supervisory Council</i> Appointed by the General Shareholders’ Meeting	Lev Partskhaladze (Chairman) Andrii Myrhorod’skyi Jaroslav Kinach
<b>• CJSC “Kvadrat Ukraina”</b>	
Full name	Closed Joint Stock Company “Kvadrat Ukraina”
Short name	CJSC “Kvadrat Ukraina”
Date of acquisition/establishment by the Company	2 February 2005 — acquisition of 1,990,240 shares by the Company; and 3 March 2005 — acquisition of 12,822 shares by the Company
Date of registration	9 December 2003
State Registration Number	32707785
Taxpayer’s Identification Number	34109
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 2,246,900.00, divided into 2,246,900 ordinary shares having nominal value UAH 1.00 each
Ownership by the Company (direct or indirect)	Direct ownership: holds 89.15 per cent. of shares  Indirect ownership: holds 10.85 per cent. of shares through CJSC “Investment Company “XXI Stolittya”
<i>Management Board</i> Appointed by the General Shareholders’ Meeting	Oleksandr Ovchar (Chairman) Tetyana Chestneisha Pavlo Gasparyants Natalia Rozhkova Ruslan Obukhov Heorhiy Polischuk Tetyana Pytailo
<i>Supervisory Council</i> Appointed by the General Shareholders’ Meeting	Lev Partshaladze (Chairman) Zoryana Zhupan Mykola Yerzhakhovskyy
<b>• CJSC “Prominvestgroup 1”</b>	
Full name	Closed Joint Stock Company “Prominvestgroup 1”
Short name	CJSC “Prominvestgroup 1”

Date of acquisition/establishment by the Company	22 March 2004
Date of registration	22 March 2004
State Registration Number	32851642
Taxpayer's Identification Number	34836
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 256,300.00 divided into 256,300 ordinary shares having nominal value UAH 1.00 each
Ownership by the Company (direct or indirect)	Indirect ownership: holds 1 per cent. of shares through LLC "XXI Stolittya"; and holds 99 per cent. of shares through LLC "Prominvestgroup"
<i>Management Board</i> Appointed by the General Shareholders' Meeting	Maksym Bilous (Chairman) Oleh Zankevych Iryna Lyakh
<i>Supervisory Council</i> Appointed by the General Shareholders' Meeting	Nadiya Lysenko (Chairman) Mykola Yerzhakhovskyy Vitaly Butenko
• <b>CJSC "Development XXI Stolittya"</b>	
Full name	Closed Joint Stock Company "Rozvytok XXI Stolittya"
Short name	CJSC "Rozvytok XXI Stolittya"
Date of acquisition/establishment by the Company	24 April 2004
Date of registration	24 April 2004
State Registration Number	32916463
Taxpayer's Identification Number	35213
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 256,250.00 divided into 256,250 ordinary shares having nominal value UAH 1.00 each
Ownership by the Company (direct or indirect)	Direct ownership: holds 74 per cent. of shares
Other Shareholder(s)	Oleksiy Butenko: holds 26 per cent. of shares
<i>Management Board</i> Appointed by the Constituent Meeting	Oleksiy Butenko (Chairman) Oleh Zankevych Stepan Bogatchuk

<i>Supervisory Council</i> Appointed by the Constituent Meeting	Lev Partskhaladze (Chairman) Vitaly Butenko Nadiya Lysenko
<b>• OJSC “Avrora”</b>	
Full name	Open Joint Stock Company “Avrora”
Short name	OJSC “Avrora”
Date of acquisition/establishment by the Company	4 February 2003 — acquisition of 8,595,400 shares by LLC “Soyuz Premyer”; 23 September 2005 — acquisition of 11,405,600 shares by the Company
Date of registration	9 July 1996
State Registration Number	24370724
Taxpayer’s Identification Number	02382
Registered address	Ukraine, 02139, Kyiv, Boulevard Perova, 36
Mailing address	Ukraine, 02139, Kyiv, Boulevard Perova, 36
Charter capital	UAH 5,000,000.00, divided into 20,000,000 ordinary shares having nominal value UAH 0.25 each
Ownership by the Company (direct or indirect)	Direct ownership: holds 57.028 per cent. of shares Indirect ownership: holds 42.977 per cent. of shares through LLC “Soyuz Premyer”
<i>Management Board</i> Appointed by the Supervisory Council	Heorhiy Polischuk (Chairman) Other members — N/A
<i>Supervisory Council</i> Appointed by the General Shareholders’ Meeting	Ihor Fakas (Chairman) Lev Partskhaladze Vadym Hurzhos
<b>• LLC “Soyuz-Inform”</b>	
Full name	Limited Liability Company “Soyuz-Inform”
Short name	LLC “Soyuz-Inform”
Date of acquisition/establishment by the Company	1 March 1995
Date of registration	1 March 1995
State Registration Number	19022659
Taxpayer’s Identification Number	3280
Registered address	Ukraine, 04050, Kyiv, vul. Bilorus’ka, 2
Mailing address	Ukraine, 04050, Kyiv, vul. Bilorus’ka, 2



Charter capital	UAH 25,000,000
Ownership by the Company (direct or indirect)	Indirect ownership: holds 60.01 per cent. of the charter capital through LLC “XXI Stolittya”
Other Shareholder(s)	Company “Argio Limited”: holds 18.82 per cent. of the charter capital Olena Bondarenko: holds 10.585 per cent. of the charter capital Ruslan Zelen’ko: holds 10.585 per cent. of the charter capital
<i>Director</i> Appointed by the Participants’ Assembly	Tetiana Chestneisha
<b>• LLC “Zhytlo XXI Stolittya”</b>	
Full name	Limited Liability Company “Zhytlo XXI Stolittya”
Short name	LLC “Zhytlo XXI Stolittya”
Date of acquisition/establishment by the Company	22 August 2002
Date of registration	22 August 2002
State Registration Number	32159193
Taxpayer’s Identification Number	30576
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 1,200,000
Ownership by the Company (direct or indirect)	Direct ownership: holds 74 per cent. of the charter capital
Other Shareholder(s)	Gestfair Limited holds 26 per cent. of the charter capital
<i>Directorate</i> Appointed by the Participants’ Assembly	Oleksiy Butenko (General Director) Tetiana Pronina (Financial Director)
<b>• LLC “Elite Zhytlo” (In the process of re-registration)</b>	
Full name	Limited Liability Company “Elite Zhytlo”
Short name	LLC “Elite Zhytlo”
Date of acquisition/establishment by the Company	3 October 2002
Date of registration	3 October 2002
State Registration Number	32207456
Taxpayer’s Identification Number	31252
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3

Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 100,000
Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the Participants’ Assembly	Stepan Bohatchuk
<b>• LLC “Mriya-Invest”</b>	
Full name	Limited Liability Company “Mriya-Invest”
Short name	LLC “Mriya-Invest”
Date of acquisition/establishment by the Company	3 September 2003
Date of registration	3 September 2003
State Registration Number	32670462
Taxpayer’s Identification Number	18193/4885
Registered address	Ukraine, 01030, Kyiv, vul. Kominternu, 13/135
Mailing address	Ukraine, 01030, Kyiv, vul. Kominternu, 13/135
Charter capital	UAH 15,400,100
Ownership by the Company (direct or indirect)	Holds 99 per cent. of the charter capital directly and 1 per cent. indirectly through CJSC Investment Company “XXI Stolittya”
Other Shareholder(s)	Starcare Limited: holds 50 per cent. of the charter capital
<i>Director</i> Appointed by the Participants’ Assembly	Alexander Kuprasov
<b>• LLC “Shvydko-Invest”</b>	
Full name	Limited Liability Company “Shvydko-Invest”
Short name	LLC “Shvydko-Invest”
Date of acquisition/establishment by the Company	20 September 2005
Date of registration	6 August 1998
State Registration Number	30160762
Taxpayer’s Identification Number	424-TOB
Registered address	Ukraine, 07300, Kyiv oblast’, Vyshhorodskyi district, the City of Vyshhorod, vul. Sholudenka, 19

Mailing address	Ukraine, 07300, Kyiv oblast', Vyshhorodskyi district, the City of Vyshhorod, vul. Sholudenka, 19
Charter capital	UAH 250,000
Ownership by the Company (direct or indirect)	Direct ownership: holds 99 per cent. of the charter capital.
Other Shareholder(s)	Lev Partskhaladze: holds 1 per cent. of the charter capital
<i>Director</i> Appointed by the Participants' Assembly	Viktor Sobchenko
<b>• LLC "XXI Stolittya"</b>	
Full name	Limited Liability Company "XXI Stolittya"
Short name	LLC "XXI Stolittya"
Date of acquisition/establishment by the Company	12 March 2004
Date of registration	10 January 1999
State Registration Number	30265123
Taxpayer's Identification Number	20483
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 39,705,985
Ownership by the Company (direct or indirect)	Direct ownership: holds 99.995 per cent. of the charter capital  Indirect ownership: holds 0.005 per cent. of the charter capital through LLC "Kvadrat-Maydan"
<i>Director</i> Appointed by the President of the LLC	Taras Kutovyy
<b>• LLC "Dim i K" (In the process of re-registration)</b>	
Full name	Limited Liability Company "Dim i K"
Short name	LLC "Dim i K"
Date of acquisition/establishment by the Company	3 October 2002
Date of registration	3 October 2002
State Registration Number	32207435
Taxpayer's Identification Number	31253
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3

Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 16,500
Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the Participants’ Assembly	Ivan Haidaienko
• <b>LLC “Garant-Invest”</b>	
Full name	Limited Liability Company “Garant-Invest”
Short name	LLC “Garant-Invest”
Date of acquisition/establishment by the Company	23 June 2003
Date of registration	23 June 2003
State Registration Number	32559489
Taxpayer’s Identification Number	17689
Registered address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Mailing address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Charter capital	UAH 18,500
Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the Participants’ Assembly	Stepan Bohatchuk
• <b>LLC “Architecture Lyuks”</b>	
Full name	Limited Liability Company “Arkhitektura Lyuks”
Short name	LLC “Arkhitektura Lyuks”
Date of acquisition/establishment by the Company	4 December 2002
Date of registration	4 December 2002
State Registration Number	32254459
Taxpayer’s Identification Number	16635
Registered address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Mailing address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Charter capital	UAH 16,500

Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the President of the LLC	Oleksii Bieloshystyi
<b>• LLC “Megagrad”</b>	
Full name	Limited Liability Company “Megagrad”
Short name	LLC “Megagrad”
Date of acquisition/establishment by the Company	3 September 2003
Date of registration	3 September 2003
State Registration Number	32670499
Taxpayer’s Identification Number	18192/3463
Registered address	Ukraine, 01030, Kyiv, vul. Kominternu, 13/135
Mailing address	Ukraine, 01030, Kyiv, vul. Kominternu, 13/135
Charter capital	UAH 1,080,000
Ownership by the Company (direct or indirect)	Indirect ownership: holds 60 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya”
Other Shareholder(s)	LLC “Franklin Group Ukraina”: holds 40 per cent. of the charter capital
<i>Director</i> Appointed by the Participants’ Assembly	Serhii Skrypnyk
<b>• LLC “Elite Service”</b>	
Full name	Limited Liability Company “Elit Servis”
Short name	LLC “Elit Servis”
Date of acquisition/establishment by the Company	4 December 2002
Date of registration	4 December 2002
State Registration Number	32254479
Taxpayer’s Identification Number	16634/2343
Registered address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Mailing address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Charter capital	UAH 100,000

Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the Participants’ Assembly	Ivan Haidaienko
<b>• LLC “Rielter-Elit” (In the process of re-registration)</b>	
Full name	Limited Liability Company “Rielter-Elit”
Short name	LLC “Rielter-Elit”
Date of acquisition/establishment by the Company	3 October 2002
Date of registration	3 October 2002
State Registration Number	32207440
Taxpayer’s Identification Number	31262
Registered address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Mailing address	Ukraine, 01001, Kyiv, vul. Hrushevskoho, 3
Charter capital	UAH 100,000
Ownership by the Company (direct or indirect)	Indirect ownership: holds 99 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”
<i>Director</i> Appointed by the Participants’ Assembly	Ihor Fakas
<b>• LLC “Eurohradobud”</b>	
Full name	Limited Liability Company “Eurohradobud”
Short name	LLC “Eurohradobud”
Date of acquisition/establishment by the Company	4 December 2002
Date of registration	4 December 2002
State Registration Number	32254464
Taxpayer’s Identification Number	16632
Registered address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Mailing address	Ukraine, 01032, Kyiv, vul. Saksahanskoho, 133-A
Charter capital	UAH 16,500
Ownership by the Company (direct or indirect)	Indirect ownership: holds 49 per cent. of the charter capital through LLC “Zhytlo XXI Stolittya” and 1 per cent. of the charter capital through LLC “XXI Stolittya”

Other Shareholder(s)	LLC “Invest Finance”: holds 50 per cent. of the charter capital
<i>Director</i> Appointed by the President of the LLC	Mykhailo Vovchok
<b>• LLC “Kvadrat — Hnata Yury”</b>	
Full name	Limited Liability Company “Kvadrat — Hnata Yury”
Short name	LLC “Kvadrat — Hnata Yury”
Date of acquisition/establishment by the Company	4 September 2001 (70 per cent. ownership interest), which was later decreased to 50 per cent. ownership interest
Date of registration	4 September 2001
State Registration Number	31625340
Taxpayer’s Identification Number	2547
Registered address	Ukraine, 03148, Kyiv, vul. Hnata Yury, 9, Apt. 414
Mailing address	Ukraine, 03148, Kyiv, vul. Hnata Yury, 9, Apt. 414
Charter capital	UAH 30,000,000
Ownership by the Company (direct or indirect)	Indirect ownership: holds 50 per cent. of the charter capital through LLC “XXI Stolittya”
Other Shareholder(s)	Preisen Investments Limited: holds 50 per cent. of the charter capital
<i>Director</i> Appointed by the Participants’ Assembly	Vitaliy Fastovets
<b>• LLC “Soyuz Premier”</b>	
Full name	Limited Liability Company “Soyuz Premier”
Short name	LLC “Soyuz Premier”
Date of acquisition/establishment by the Company	11 July 2005
Date of registration	12 December 2002
State Registration Number	32311364
Taxpayer’s Identification Number	4329
Registered address	Ukraine, 04070, Kyiv, vul. Illinska, 12, Apt. 203
Mailing address	Ukraine, 04070, Kyiv, vul. Illinska, 12, Apt. 203
Charter capital	UAH 3,000,000

Ownership by the Company (direct or indirect) Indirect ownership: holds 41 per cent. of the charter capital through CJSC “Kvadrat-Ukraina” and 59 per cent. of the charter capital through LLC “XXI Stolittya”

*Director*  
Appointed by the Participants’ Assembly Ihor Fakas

• **LLC “Prominvestgroup”**

Full name Limited Liability Company “Prominvestgroup”  
Short name LLC “Prominvestgroup”  
Date of acquisition/establishment by the Company 24 February 2004  
Date of registration 30 July 2002  
State Registration Number 32110865  
Taxpayer’s Identification Number 30445  
Registered address Ukraine, 01010, Kyiv, vul. Sichnevogo Povstannya, 11A, Apt. 54  
Mailing address Ukraine, 01010, Kyiv, vul. Sichnevogo Povstannya, 11A, Apt. 54  
Charter capital UAH 256,500  
Ownership by the Company (direct or indirect) Direct ownership: holds 50 per cent. of the charter capital  
Other Shareholder(s) LLC “Trans-Komplekt”: holds 50 per cent. of the charter capital  
*Director*  
Appointed by the Participants’ Assembly Iryna Lyakh

**3 Share Capital of the Company**

**3.1 General**

At the date of this document, the authorised and issued share capital of the Company is as follows:

Number	Authorised Amount	Issued and Fully Paid	
		Number	Amount
40,000,000 shares of US\$0.01 each	US\$400,000	24,000,000	US\$240,000



	<u>Share Capital as at the date of this document</u>		<u>Percentage of Fully Diluted Share Capital following the Placing<sup>(1)</sup></u>
	<u>Number of Shares</u>	<u>Percentage of Share Capital</u>	
<i>Directors</i>			
Lev Partskhaladze . . . . .	20,640,000	86.0%	58.0%
Andriy Myrhorodsky . . . . .	1,200,000	5.0%	3.4%
Mykola Yerzhakhovskyy . . . . .	1,200,000	5.0%	3.4%
Taras Kutovyy . . . . .	960,000	4.0%	2.7%

(1) Assuming that no Over-allotment Shares are acquired pursuant to the Over-allotment Arrangements.

In addition, Mark Holdsworth has subscribed for Shares equivalent to £25,000 upon the terms and conditions of the Placing.

The Company is not aware of any person who either alone or, together with any person with whom he is connected, will or could exercise control over the Company immediately following Admission. The Company is also not aware of any other person with an interest in the Company's share capital that is notifiable under Cyprus law or holding over three per cent. of the Company's share capital.

The holding of the Directors set out in the table above are, at the date of this document, or will, following the Placing, be as follows:

### **3.2 Shares**

All holders of Shares are entitled to one vote for each Share held of record on all matters submitted to a vote of the Shareholders. The Company's major shareholders do not have any special voting rights. Holders of Shares are entitled to receive rateably only those dividends as may be declared by the Board out of funds which according to the Companies Law and the Company's Articles of Association are available, as well as any distributions to the Shareholders. Details of the Company's dividend policy are set out in "Dividend Policy" in Part I of this document.

In the event of the Company's liquidation, dissolution or winding up, holders of Shares are entitled to share rateably in all of the Company's assets remaining after the Company pays its liabilities.

The rights attaching to the Shares provided for in the Company's Memorandum of Association and Articles of Association are set out in paragraph 4 of this Part X. The rights attaching to the Shares are also subject in all respects to the Companies Law.

### **3.3 Preferred Shares**

The Company has no authorised Preferred Shares and has no present plan to authorise or issue Preferred Shares.

### **3.4 Convertible Notes**

The Company has not issued any Convertible Notes and has no present plan to authorise or issue Convertible Notes.

### **3.5 Option Programme**

The Company has established a Remuneration Committee of the Board of Directors in order to determine compensation of the Group's Directors and key employees as may be determined from time to time by the Remuneration Committee. The Company intends to establish a Share option programme pursuant to which the Directors and key employees will be granted options to subscribe for Shares, such grants to be based on a number of factors including the growth and financial performance of the Company in addition to the efforts and contributions of such persons to the Company's performance. The Share option programme will allocate options to the Directors and key employees which Shares will vest over a three year time frame and which will be priced in the discretion of the Remuneration Committee. Any options which have not vested will be subject to forfeiture by an employee whose employment is terminated prior to such vesting event. It is the intention of the Company that the total amount of Shares that would be available pursuant to the option programme to be established will not exceed five per cent. of the total ordinary Share capital of the Company outstanding at any time.

### **3.6 Treasury Shares and Repurchase Undertakings**

The Company does not have any Shares in treasury and has no present plan to buy back any Shares. Under the Companies Law there are restrictions on the Company's ability to repurchase its own Shares which make it difficult to predict whether the Company will ever be in a position to repurchase its own Shares, once issued.

## **4 Memorandum and Articles of Association**

### **4.1 Memorandum of Association**

The following is a brief summary of certain material provisions of the Company's Memorandum of Association as will be in effect immediately prior to the Placing:

- (a) The purpose of the Company is to carry on business as an investment holding and trading company. The objects of the Company are set out in full in Clause 3 of its Memorandum of Association.
- (b) The Company has an authorised Share capital of US\$400,000 at the date of this document.

### **4.2 Articles of Association**

In this section, "Law" means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended. The current Articles of Association of the Company (the "Articles") were adopted by the Company on 16 November 2005.

The following is a brief summary of certain material provisions of the Articles as will be in effect immediately prior to the Placing:

#### *Directors*

- (a) The management of business and the conduct of the affairs of the Company are vested in the Directors. There shall be a minimum of three Directors and there shall be no maximum number of Directors. The Company may by ordinary resolution increase or decrease the number of Directors from time to time. An alternate Director is not counted in determining the number of Directors.
- (b) At the first annual general meeting of the Company as a public entity, all the Directors will offer themselves for re-election.
- (c) Each Director may nominate another Director or any other person to act as his alternate Director. An alternate Director is subject to the same regulations as the other Directors, and is entitled to vote at any meeting at which his appointer is not present. An alternate Director is counted in the quorum. An alternate Director may be removed at any time by his appointer.
- (d) The Directors have the power at any time to appoint any individual to be a Director so as to fill a vacancy or to add to the existing Directors up to the maximum number of Directors then allowed. At any time, the Company at a general shareholder meeting may (without prejudice to the above powers of the Directors) appoint any person a Director and determine the period for which such person is to hold office by resolution of the shareholders with each shareholder having the number of votes equal to the product of the number of his Shares multiplied by the number of Directors. In addition, the Company may by ordinary resolution of which special notice had been given (28 days) remove a Director. Any such Director will receive special notice of the meeting and is entitled to be heard at the meeting. A Director may also be removed by a written resolution of the Members holding in aggregate more than 50 per cent. of the total voting rights. Such decision to remove a Director is subject to ratification by an ordinary resolution of the Company adopted at its next annual general meeting.
- (e) The remuneration of the Directors will from time to time be determined by the Company on the recommendation of Remuneration Committee. Any Director performing special or extraordinary services in the conduct of the Company's business or in discharge of his duties as Director, or who travels or resides abroad in discharge of his duties as Director, may be paid such extra remuneration as determined by the Directors. In addition, Directors are paid their travelling, hotel and incidental expenses properly incurred in the conduct of the Company's business or in the discharge of their duties as Directors.

- (f) The shareholding qualification for Directors may be fixed by the Company at a general shareholder meeting, and unless and until so fixed no qualification shall be required.
- (g) A Director of the Company may be or become a Director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested as a shareholder or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or officer of, or from his interest in, such other company unless the Company otherwise directs.
- (h) The Directors may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit and questions arising at any meeting will be decided by a simple majority of votes of all of the Directors whether voting or not.
- (i) The quorum necessary for the Directors to transact business is a simple majority of Directors present in person or through their alternates. If within half an hour from the time appointed for the meeting a quorum is not present, it shall stand adjourned to the same day in the next week at the same time and place or to such other day and at such other time and place as the Directors may determine, which, however, shall not be later than 10 days after the original meeting.
- (j) The Directors may delegate any of their powers to committees consisting of such members of their body as they think fit; any committee so formed will in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors. Without limitation to the generality of the foregoing, the following committees of Directors shall be formed:
  - (i) An Audit Committee, the initial members of which shall comprise of three Directors. In the event that the Board of Directors shall designate any independent non- executive Directors, then at least one member of the audit committee will be an independent non- executive Director. This committee will be responsible for, among others, the review of the Company's financial statements, accounting policies, internal controls and overseeing its relationship with its external auditors;
  - (ii) A Remuneration Committee, the initial members of which shall comprise of three Directors. In the event that the Board of Directors shall designate any independent non- executive Directors, then at least one member of the remuneration committee will be an independent non- executive Director. This committee will be responsible for, among others, determining the Company's policy on remuneration ; however, no Director or manager shall be directly involved in any decisions as to their own remuneration; and
  - (iii) A Nomination Committee, the initial members of which shall comprise of three Directors. In the event that the Board of Directors shall designate any independent non- executive Directors, then at least one member of the nomination committee will be an independent non- executive Director. This committee will be responsible for, among others, reviewing the composition of the Company's Board and making recommendations to the Board with regard to any changes.

#### *Notices*

- (a) A notice may be given by the Company to any shareholder either personally or by sending it by post, email or facsimile to him or to his registered address. Where a notice is sent by post, service of the notice shall be deemed to be effected, provided that it has been properly mailed, addressed, and posted, at the expiration of 24 hours after same is posted. Where a notice is sent by email or facsimile it shall be deemed to be effected as soon as it is sent, provided there will be the relevant transmission confirmation.
- (b) A notice may be given by the Company to the joint shareholders of a Share by giving the notice to the joint shareholder first named in the register of shareholders in respect of the Share.

- (c) A notice may be given by the Company to the persons entitled to a Share in consequence of the death or bankruptcy of a shareholder by sending it through the post in a prepaid letter addressed to them by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like descriptions, at the address, if any, supplied for this purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
- (d) Notice of every general shareholder meeting shall be given in any manner described above to:
  - (i) every shareholder except those shareholders who have not supplied to the Company a registered address for the giving of notices to them;
  - (ii) every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy would be entitled to receive notice of the meeting; and
  - (iii) the auditor for the time being of the Company.
- (e) No other person shall be entitled to receive notices of general shareholder meetings.

#### *Borrowing Powers*

The Directors may exercise all of the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### *Capitalisation of Profits*

The Company at a general shareholder meeting may upon the recommendation of the Directors resolve to capitalise any sum, being the whole or part of the amount for the time being standing to the credit of any reserve account, profit and loss account or otherwise available for distribution to shareholders.

#### *Meetings*

- (a) Subject to the Law, the Company will in each year hold a general shareholder meeting as its annual general meeting of shareholders on such day and at such place as the Directors determine.
- (b) Special meetings of shareholders may be called at any time by the Board or by requisition in accordance with Section 126 of the Law.
- (c) No business shall be transacted at any general shareholder meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business; save as herein otherwise provided, three shareholders present in person or through telephone or other telecommunication connection or by proxy and entitled to vote upon the business to be transacted shall be a quorum.
- (d) If within half an hour from the time appointed for the meeting a quorum is not present, it shall stand adjourned to the same day in the next week at the same time and place or to such other day and at such other time and place as the Directors may determine which, however, shall not be later than ten days after the original meeting. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the shareholders present shall be a quorum.

#### *Pre-emption rights*

Under the Law, all new Shares in the Company issued in consideration of cash must be offered in the first instance to the Shareholders on a date determined by the Directors and in proportion to their participation in the share capital of the Company. Each shareholder will have no less than 14 days following its receipt of the notice of the offer, which notice will identify the proposed terms and conditions of the offer, to notify the Company of its desire to exercise its pre-emption right on the

same terms and conditions proposed in the notice. The Company may by ordinary resolution of a general shareholder meeting, before the issue of any new Shares, disapply the shareholders' pre-emption rights as to the issue of such new Shares if the Directors furnish at the general shareholder meeting a written report that describes the reasons in favour of the disapplication of the shareholders' pre-emption rights and provides information to support the proposed price of the new Shares.

#### *Transfer of Shares*

- (a) Subject to the Law, all transfers of Shares may be effected by transfer in writing in the usual or common form or in such other form as the Directors may approve.
- (b) The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine; provided, however, that such registration cannot be suspended for more than 30 days in any year.

#### *Voting rights (Shares)*

- (a) Except as otherwise provided herein and subject to any special terms as to voting on which any Share may be issued (no such Shares currently being in issue), each shareholder is entitled to attend and vote, may attend and vote in person or by proxy and, where the shareholder is a corporation, by a duly authorised representative at meetings of shareholders or classes thereof. On a show of hands every shareholder present in person (or, being a corporation, present by a duly authorised representative) is entitled to one vote and on a poll every shareholder present in person or by proxy is entitled to one vote for every Share of which he is holder. When two or more persons hold the same Share jointly, the more senior shareholder, which seniority is determined by the order in which the name of the shareholder stands in the register of members, may vote the joint Share to the exclusion of the other joint holders.
- (b) No shareholder is entitled to vote at any general shareholder meeting unless all calls and other amounts payable by him in respect of Shares have been fully paid.
- (c) A shareholder can appoint more than one proxy each to vote for such part of the Shareholder's Shares as the Shareholder shall designate in the instrument appointing the relevant proxy. Under Cyprus law, proxy holders are entitled to participate and vote at meetings.
- (d) No shareholder shall be entitled to vote at any general shareholder meeting unless all calls or other sums presently payable by him in respect of Shares in the Company have been paid.

#### *Alteration of Capital*

- (a) The Company may by ordinary resolution (i) increase the Share capital by a sum to be divided into Shares of such amount, (ii) consolidate and divide all or any of its Share capital into Shares of a larger amount than its existing Shares, (iii) subdivide its existing Shares, or any of them, into Shares of a smaller amount than is fixed by the Memorandum of Association subject to Section 60(1)(d) of the Law and (iv) cancel any Shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.
- (b) The Company may by special resolution reduce its Share capital, any capital redemption reserve fund or any Share premium account in any manner and with, and subject to, any incident authorised, and consent required, by law.

#### *Dividends*

The Company in a general shareholder meeting may declare dividends to be paid out of profits but no dividend will exceed the amount recommended by the Directors. The Directors may declare interim dividends as appear to the Directors to be justified by the profits of the Company.

#### *Winding Up*

If the Company is wound up, the liquidator may:

- (a) with the sanction of an extraordinary resolution passed by shareholders of the Company, divide among the shareholders in kind the whole or any part of the property of the Company.

- (b) for that purpose set a value as the liquidator considers fair on any property to be so divided; and
- (c) decide how the division is to be carried out as between the shareholders or different classes of shareholders.

The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no shareholder shall be compelled to accept any Shares or other securities whereon there is any liability.

#### *Calls and Forfeiture*

Subject to the Law, Directors may make calls on the shareholders in respect of any money unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) which is not, by the terms of issue of those Shares, made payable at fixed times. The Directors may revoke a call, and, if not precluded from doing so by the AIM Rules, may postpone a call, and a call may be required to be paid by instalments.

If a shareholder fails to pay a call or instalment of a call on or before the day appointed for the payment of the call or instalment, the Directors may, at any time afterwards while any part of the call or instalment remains unpaid, serve a notice on the shareholder requiring payment of so much of the call or instalment as is unpaid, together with any interest that has accrued and all of the expenses of the Company incurred as a result of the non-payment.

If the requirements of the notice served on the shareholder relating to the call are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by resolution of the Directors.

#### *Variation of Class Rights*

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issues of shares of that class) may not, whether or not the Company is being wound up, be varied without the sanction of an extraordinary resolution passed at a separate general meeting of the holders, in person or by proxy, of two-thirds of the issued shares of that class or a resolution passed by a simple majority at a separate general meeting if at least half of the issued share capital is represented at such a meeting.

#### *Indemnity of Directors*

Every Director, officer, agent, auditor, secretary and full-time employee for the time being of the Company will be indemnified by the Company out of the Company's assets against any liabilities incurred by that person in executing his duties including liability incurred by him or her in defending any proceeding (whether civil or criminal) in which judgement is given in his or her favour or in which the person is acquitted or in connection with an application in relation to such proceedings in which the court grants relief to the person under the provisions of Section 383 of the Law or other applicable law.

## **5 Directors' and others' interests in Shares**

- 5.1** The interests of the Directors (all of which are beneficial unless otherwise stated) and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors within the meaning of section 346 of the UK Companies Act 1985 (the "Act") (a "Connected Person") in the issued Share capital of the Company as at the date of this document and which, if the Company were subject to the Act, would be required to be notified to the Company pursuant to sections 324 and 328 of the Act or shown in the register which would be maintained under section 325 of the Act if that Act applied (but excluding any options over Shares), are or will be as set forth in Section 3.1 of this Part X.
- 5.2** As at the date of this document no options or restricted Shares have been granted to Directors (or their Connected Persons). However, the Company intends to issue options to its Directors and executive officers, as described in Section 3.5 of this Part X.

## 6 Additional information on the Directors

6.1 Other than their directorships of the Company, the current directorships and partnerships of the Directors and the partnerships held by them during five years preceding the date of this document are as follows:

<u>Directors</u>	<u>Current Directorships/Partnership</u>	<u>Past Directorships/Partnerships</u>
Mark Holdsworth . . . . .	director of Netia S.A., Poland; Fabian Capital Ltd., England; Fabian Romania Property Fund Ltd., Jersey	—
Taras Kutovyy . . . . .	partner in Context Ltd.	—
Jaroslav Kinach . . . . .	director and partner of Interprojects Global Ltd. and director of Kyiv Capital Corporation	

6.2 Loans by the Directors or related parties:

None of the Directors or their related persons have made any loans to the Company, except for the following:

<u>Lender</u>	<u>Details of loan notes</u>			
	<u>Description</u>			<u>Amount outstanding (including accrued interest) (\$)</u>
	<u>Outstanding amount<sup>(1)</sup></u>	<u>Interest rate</u>	<u>Due Date</u>	
XXI Century Consulting Limited <sup>(2)</sup> . . . . .	US\$2,217,072	0%	within one year	US\$2,217,072

(1) As of 14 November 2005.

(2) Controlled by Lev Partskhaladze.

Each of the loans set out above will be repaid during the period immediately following Admission out of the proceeds of the Placing.

6.3 None of the Directors has been a director of a company at the time of, or within the twelve months preceding, the commencement of a receivership, liquidation, administration, company voluntary arrangement or a composition or arrangement with creditors of that company or a partner of a partnership at the time of or within the twelve months preceding any compulsory liquidation, administration, receivership or partnership voluntary arrangement of that partnership. None of the Directors (nor any partnership of which a Director has been a partner) is or has been bankrupt, made an individual voluntary arrangement with his creditors, or suffered the appointment of a receiver over any of his (or in the case of a partnership, the partnership's) assets.

## 7 Directors' Contracts, Employment Agreements and Emoluments

The total annual compensation of the principal executive officers of the Company, collectively, was US\$140,163 in 2004 and US\$131,005 for the first six months of 2005. The principal executive officers and executive Directors are parties to written agreements terminable by either party. The agreements obligate such persons to maintain confidentiality regarding the Company's business. The executive officers will also be eligible to participate in a stock option programme to be implemented by the Board of Directors and the Remuneration Committee of the Board of Directors. See paragraph 3.5 of this Part X. In addition, we have entered into a letter of appointment with our non-executive Director, covering confidentiality, indemnification against liabilities arising from his duties as a Director and providing that his eligibility to participate in the stock option programme is to be implemented by the Board and the Remuneration Committee. There are no arrangements in place for the payments of benefits to Directors and principal executive officers upon the termination of their positions with us.

The Directors have served since December 2005. Their current terms will continue until their successors are appointed at the next annual meeting of the Company's shareholders.

## **8 Material Contracts**

Save as set out in this document, the following are the only contracts (being contracts otherwise than in the ordinary course of business) which have been entered into by Shareholders of the Company and its subsidiaries within the two years immediately preceding the date of this document and are or may be material to the Company and its subsidiaries or have been entered into by any Shareholder of the Company and its subsidiaries at any time and contain any provision under which the Company and its subsidiaries has any obligation or entitlement which is material to the Company and its subsidiaries at the date of this document.

### **8.1 Underwriting Agreement**

ING and the Company will enter into an underwriting agreement on 13 December 2005, whereby on the terms and subject to the conditions contained therein the Company will issue and ING will procure subscribers for or, failing which, itself subscribe for the Shares and Global Depositary Receipts (the “Underwriting Agreement”).

In addition, the Company has entered into the Over-allotment Arrangements with ING pursuant to which, subject to certain conditions, at ING’s request the Company will issue and ING will procure subscribers (or itself subscribe) for up to a further 1,740,000 Shares for the purposes of allowing ING to meet over-allotments, if any, in connection with the Placing and to cover any short positions resulting from stabilisation transactions. The number of Shares to be issued pursuant to the Over-allotment Arrangements, if any, will be determined no later than 12 January 2006.

In consideration for its services under the Underwriting Agreement, ING will receive a commission of 4.5 per cent. of the amount equal to the Placing Price multiplied by the number of Shares and Global Depositary Receipts made available pursuant to the Placing under the Underwriting Agreement, and the number of Over-allotment Shares (if any) issued under the Over-allotment Arrangements.

The obligations of ING under the Underwriting Agreement are conditional upon, amongst other things: (i) the Company having complied with all of their obligations and having satisfied all conditions to be satisfied by any of them under the Underwriting Agreement; (ii) Admission having occurred; and (iii) there having occurred no material adverse change in the business of the Company or its subsidiaries. In addition, ING has the right to terminate the Underwriting Agreement before Admission in certain specified circumstances.

The Underwriting Agreement contains warranties given by the Company as to the accuracy of the information contained in this document and other matters relating to the Company and its business. The Company has also agreed to indemnify ING and its affiliates and their respective directors, officers and employees against certain liabilities that they may incur under the Underwriting Agreement.

The Underwriting Agreement contains certain undertakings given by the Company to ING. These include an undertaking to take various actions to enable the Depositary Interests to be settled through CREST.

In addition, subject to Admission taking place, the Company have undertaken to the ING that it will not, except with the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed), issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or any securities convertible into or exercisable or exchangeable for Shares or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares during a period of 365 days from the date of Admission except pursuant to the Placing Document. Issues, sales, offers, sales contracts to sell, pledges or disposals may be made to the executives of the Company and/or of the Group Companies if such issues, offers, sales contracts to sell, pledges or disposals are made as a part of a management incentive scheme without the consent of the ING in the manner consistent with generally accepted practice for companies in similar industries as the Company

### **8.2 Stock Lending Agreement**

In connection with the Over-allotment Arrangements, Lev Partskhaladze has entered into a stock lending agreement (the “Stock Lending Agreement”) with ING under which ING is able (but is not



obligated) to borrow from Mr Partskhaladze up to 1,740,000 Shares held by Mr Partskhaladze. The purpose of the loan is, amongst other things, to allow ING to settle, at Admission, any over-allotments made in connection with the Placing. If ING borrows any Shares under the Stock Lending Agreement it will be required to return equivalent securities to Mr Partskhaladze, by a date expected to be by no later than 12 January 2006.

### **8.3 Nominated Adviser and Broker Agreement**

The Company and ING have entered into a nominated advisor and broker agreement dated 29 November 2005 under which ING has accepted its appointment as the Company's nominated advisor and its appointment as the Company's broker for the purpose of the AIM Rules. The Company will pay ING an aggregate yearly fee of £5,000 in addition to the costs and expenses incurred by ING in carrying out their obligations under the agreement. The agreement contains certain undertakings, confirmations and indemnities given by the Company to each of ING. The appointment of ING may be terminated by the Company (on the one hand) and ING (on the other hand) on immediate notice.

### **8.4 Lock-in arrangements**

Lock-in agreements have been entered into by each of the related parties and applicable employees (all as defined in the AIM Rules) being Lev Partskhaladze, Andriy Myrhorodsky, Mykola Yerzhakovsky and Taras Kutovyy (such people being referred to as the "Lock-in Parties") with ING and the Company. The Lock-in Parties hold 24,000,000 Shares representing all of the pre-admission share capital.

The Lock-in Parties have agreed (subject to certain limited exceptions), for the period up to and including the date 365 days after Admission in the case of the Lock-in Parties (the "Lock-in Period"), without the prior written consent of ING not to: (i) offer, lend, sell, deposit, contract to sell, mortgage, pledge, create liens over, charge, assign, create any other security interest or equity over, issue options, warrants or other derivative instruments in respect of, or grant any option to purchase, or otherwise dispose of, directly or indirectly, any Shares held by them at any time during the Lock-in Period (or any other securities convertible into or exchangeable for Shares or which carry rights to subscribe for or purchase Shares or any interest therein or in respect thereof, including any warrants in issue from time to time); (ii) enter into any swap or other arrangement which transfers to another, in whole or in part, the economic consequences of ownership of any Share or any interest therein; or (iii) announce any intention to do, or agree to do, any of the foregoing.

## **9 Litigation**

Save as set forth in this document, neither the Company nor any of its subsidiaries are engaged in, nor has pending or threatened against it, any legal or arbitration proceedings which may have or have had during the 12 months prior to the publication of this document a significant effect on the financial position of the Company.

## **10 Working Capital**

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

## **11 Taxation**

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder of Shares, Global Depositary Receipts or Depositary Interests. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including the consequences under English, Ukrainian and Cyprus law and practice, of acquisition, ownership and disposition of Shares, Global Depositary Receipts or Depositary Interests in their own particular circumstances, by consulting their own professional advisors.

## **11.1 United Kingdom taxation**

The comments below are of a general nature and are based on current English law and HM Revenue & Customs practice published as of the date of this document, both of which are subject to change, possibly with retroactive effect. These comments are not exhaustive. Prospective investors should consult with their own taxation advisors as to the UK tax consequences for them associated with acquisition, holding and disposing of the Shares, Global Depositary Receipts or Depositary Interests. This summary: (i) only addresses certain UK tax consequences for persons resident for tax purposes in the UK (except insofar as express reference is made to the treatment of non-UK tax residents) who hold the Shares, Global Depositary Receipts or Depositary Interests as capital assets and does not address the tax consequences which may be relevant to certain other categories of holder, for example, dealers in securities or employees; (ii) assumes that the holder does not either directly or indirectly control more than five per cent. of the Share capital, voting power or profits (or assets on a winding up) of the Company; and (iii) assumes that the holder does not hold the Shares, Global Depositary Receipts in trust. Special rules, not covered here, apply to individual holders of the Shares, Global Depositary Receipts or Depositary Interests who are resident or ordinarily resident in the UK but are not domiciled in the UK.

### **11.1.1** *Taxation of Chargeable Gains*

A disposal of Shares, Global Depositary Receipts or Depositary Interests by a holder who is resident or, in the case of an individual, ordinarily resident in the UK for UK tax purposes may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains (subject to any available exemptions or reliefs). An individual holder of the Shares or GDRs who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years and who disposes of such Shares or Global Depositary Receipts during that period may also be liable on returning to the UK for UK capital gains tax despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

For a holder within the charge to UK corporation tax, an indexation allowance on the acquisition cost of the Shares, Global Depositary Receipts or Depositary Interests may be available to reduce the amount of chargeable gain (but not increase the amount of allowable loss) realised on a subsequent disposal. For an individual holder, taper relief may be available to reduce the proportion of any chargeable gain subject to tax.

### **11.1.2** *Dividends*

Any holder of Shares, Global Depositary Receipts or Depositary Interests who is resident in the UK will generally be subject to UK income tax or corporation tax on the gross amount of any dividends received from the Company before deduction of any applicable overseas withholding taxes. As such dividends will be foreign income for the purposes of UK taxation they will be subject to a different tax regime from that applying to dividends received from UK resident companies. In particular, the dividends will not carry a UK tax credit, unlike dividends received from a UK resident company. Dividends received by holders within the charge to UK corporation tax in respect thereof will generally be taxed at the prevailing UK corporation tax rate (the standard rate of which is currently 30 per cent.). An individual holder will generally be chargeable to UK income tax on the dividends at the current rate of 10 per cent. or, to the extent that the gross amount of the dividend when treated as the top slice of his or her income exceeds the threshold for higher rate tax, at the current rate of 32.5 per cent. Relief will be available against the UK liability for withholding tax (if any) suffered on the dividend.

### **11.1.3** *UK Stamp Duty and Stamp Duty Reserve Tax*

There is generally no liability to UK stamp duty or stamp duty reserve tax on the issue of Shares, Global Depositary Receipts or Depositary Interests.

If a sale of Shares or Global Depositary Receipts is completed by an instrument of transfer which is executed in the UK or which relates to any matter or thing done or to be done in the UK, such sale will be subject to the UK stamp duty at a rate of 0.5 per cent. of the value of the consideration for the sale. Any instrument effecting or evidencing the transfer of Shares or Global Depositary Receipts which is liable to UK stamp duty may not (except in criminal proceedings) be given in evidence or be available for any purpose whatsoever in the UK unless duly stamped. Whether or not an instrument of transfer is stamped, however, will not affect the registration of the transfer of

Shares or Global Depositary Receipts in the Company's register or the Depositary's register or the fact that that registration will constitute the primary evidence of the transferee's title to the Shares or Global Depositary Receipts. It is therefore unlikely that it will ever become necessary to stamp any such instrument and pay duty at the rate mentioned above (or any related interest or penalties). However, should it later become necessary to have that document stamped in the UK, penalties may also be payable in addition to any unpaid stamp duty.

No charge to UK stamp duty reserve tax will arise in respect of an agreement to transfer Shares, or any transfer of Global Depositary Receipts, provided that the Shares are not registered in any register kept in the UK by or on behalf of the Company. Currently there are no proposals for such a register to be kept in the UK.

UK stamp duty reserve tax will be payable on an agreement to transfer Depositary Interests within CREST at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. It is not expected that an instrument subject to UK stamp duty would be created in respect of such a transfer, but any such instrument would be subject to a UK stamp duty charge at a rate of 0.5 per cent. of the amount or value of consideration for such transfer.

#### **11.1.4** *Inheritance Tax*

Shares, Global Depositary Receipts or Depositary Interests beneficially owned by an individual who is domiciled or is for inheritance tax purposes deemed to be domiciled in the UK may (subject to certain exemptions and reliefs) be subject to UK inheritance tax on the death of the individual or, in certain circumstances, if the Shares, Global Depositary Receipts or Depositary Interests are the subject of a gift or other transfer of value by the individual.

For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift under particular rules applied to gifts where the donor reserves or retains some benefit. UK inheritance tax is not generally chargeable on gifts to individuals or to certain types of settlements made more than seven years before the death of the donor.

Holdings should consult an appropriate professional advisor if they make a gift or transfer of value of any kind or intend to hold any Shares, Global Depositary Receipts or Depositary Interests through trust arrangements. Holders should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another jurisdiction.

## **11.2 Ukrainian Taxation**

Set forth below is a summary of the relevant Ukrainian tax laws and regulations in effect on the date of this document. These laws and regulations are subject to change or to varying interpretations, possibly with retroactive effect. As with other areas of current Ukrainian legislation, the tax law and practice in Ukraine are not as clearly established as those of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice set forth below may change, or that the law may be amended with retroactive effect.

Accordingly, it is possible that any and all payments to be made to the Company or its affiliates could become subject to taxation, or that the rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this document.

### **Ukrainian Corporate Profits Tax**

A legal entity resident in Ukraine is liable to taxation in Ukraine on its world-wide income. In contrast, a non-resident legal entity is liable to taxation in Ukraine only with respect to: (i) income from its business carried out in Ukraine through a permanent establishment ("PE"); or (ii) its "Ukrainian source income" in the form of, amongst other things, dividends, interest and capital gains, if its business carried out in Ukraine does not rise to the level of a permanent establishment.

Taxable income is computed by means of deducting from the taxpayer's gross revenue, as adjusted by certain tax exempt receipts, the taxpayer's business-related expenses and depreciation (amortisation) allowances. Ukrainian corporate profits tax is imposed at the level of 25%.

In Ukraine, retained earnings are exempt from taxation, whereas distributed profits are taxed at the distributing entity level at the rate of 25%, which is charged on, and in addition to, such distributed profits. However, the distributing entity may credit such tax levied on distributed profits against its corporate profits tax liability.

A Ukrainian legal entity will be allowed to deduct for purposes of the corporate profits tax only 85% of its costs incurred in the form of service fees paid (a) for the benefit of, (b) through the mediation of, or (c) to or through the bank account of, a foreign service provider, if such provider will be deemed to be a resident of an “off-shore jurisdiction”. On April 1, 2005, Cyprus was added to the list of such “off-shore jurisdictions”.

Additionally, the Ukrainian transfer pricing rules would apply if the parties would be deemed to be “related” for purposes of the applicable Ukrainian legislation. Parties are “related” if, *inter alia*, one party controls, directly or indirectly, shareholding interests representing more than 20% of the charter capital of the other party. In the relationship between related parties, all prices must be determined at “arm’s length”, i.e., at the market rate. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate, nor does it provide any “safe harbour” in the case of any deviation from such market rate. If prices would be deemed as having been established at rates different from market rates, the taxpayer may be assessed an additional tax liability computed by reference to the amount of the price deviation.

There is no concept of consolidated taxes and, therefore, each legal entity, as a payer of corporate profits tax, is required to compute and pay its profits tax.

Losses can be carried forward indefinitely, whereas the carrying-back of losses is not allowed.

#### *Ukrainian Withholding Tax*

As noted above a non-resident legal entity is liable in Ukraine only with respect to its “Ukrainian source income”, if its business carried out in Ukraine does not rise to the level of a permanent establishment. Such income is generally investment-type income, that is deemed to have its source in Ukraine, and is subject to 15% Ukrainian gross-based withholding tax.

This withholding tax may be reduced, or entirely eliminated, by virtue of the operation of an applicable tax treaty on the avoidance of double taxation between Ukraine and the respective jurisdiction. Ukraine and Cyprus do not have such a tax treaty. Currently, however, Ukraine adheres to the provisions of the Convention between the Government of Cyprus and the Government of the USSR for the Avoidance of Double Taxation of Income and Property, dated October 29, 1982 (the “Tax Treaty”). Under this treaty, a “resident” of Cyprus, defined as a “person liable to taxation in Cyprus”, may benefit from the Tax Treaty’s exemption from Ukrainian withholding tax. This exemption will apply to Ukrainian source income paid in the form of, *inter alia*, dividends, interest, and capital gains, provided that such income will not be attributable to a permanent establishment of such Cypriot tax resident in Ukraine.

The Company, as a “resident” of Cyprus for the purposes of the Tax Treaty, should be in a position to benefit from this exemption. By virtue of the treaty, the Company will not be liable for Ukrainian withholding tax with respect to dividends, interest, or capital gains, provided, however, that such Ukrainian source income will not be attributable to any permanent establishment of the Company in Ukraine. In order to claim the Tax Treaty relief, the Company must provide the Ukrainian payer of the Ukrainian source income prior to payment, with a tax residency certificate for the relevant fiscal year in the prescribed form, confirming the fact that the recipient of such income is a tax resident of Cyprus for purposes of the Tax Treaty.

The Tax Treaty may be repealed, or a new treaty, which is considered to be negotiated, may replace it. It is uncertain what tax rates such a new treaty will impose on dividends, interest, and capital gains, which the Company will derive from its investments in Ukraine.

#### *Value Added Tax and Customs Duty*

Value Added Tax (“VAT”) of 20 per cent. is imposed on domestic sales of goods, works and services, import of goods and concomitant services to Ukraine. Import VAT is assessed on the customs value of the imported goods inclusive of customs duties. Export of goods is subject to 0 per cent. VAT (which effectively means a VAT exemption for exporters with entitlement to claim input VAT offset under applicable conditions and procedures). A number of goods, works, and services are exempt from VAT.

Import customs duties are generally imposed at rates varying from 0 per cent. to as much as 50 per cent. on a wide range of imported goods. If certain conditions are met, there may be a reduction of customs duty rates or exemption from customs duty, e.g., imported goods, which are contributed by a foreign investor to the charter capital of Ukrainian company, are exempt from import customs duties.

### *Payroll-Related Taxes*

Currently, the following mandatory payroll-related taxes, payable at the following percentage rates of the employees' monthly salary, are generally applicable to all employers in respect of their insured employees:

<b>Description</b>	<b>Rate</b>
(1) Pension insurance:	32.3%
(2) Temporary disability, birth, and burial insurance:	2.9%
(3) Unemployment insurance:	1.6%
(4) Industrial accident and professional disease disability insurance:	0.86% up to 13.8% <sup>(1)</sup>
Total:	37.66% up to 50.6%

(1) The actual rate depends on the "traumatism risk level" of the industry sector in which the employer operates.

The taxable basis for the above payroll taxes is currently capped at UAH 4,100 (approximately US\$810 at the exchange rate of the NBU in effect at the beginning of November 2005) per employee per month.

### *Land Tax*

Currently, the land tax is established at the level of one per cent. per annum of the "pecuniary valuation" of land. This tax is paid on a monthly basis at 1/12 of the annual tax.

The pecuniary valuation of land is carried out by the State Committee of Ukraine on Land Resources in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine. This methodology accounts for various factors, including, but not limited to, the location of a particular parcel of land and the purpose for which the land is to be used.

The pecuniary valuation of a particular parcel of land is carried out only once. For each of the following years, however, the original valuation is adjusted by a coefficient of indexation, which is established for the relevant year in accordance with the procedure adopted by the Cabinet of Ministers of Ukraine.

## **11.3 Cyprus Taxation**

### *Tax Residency in Cyprus*

In accordance with Cyprus income tax laws, a company is tax resident in Cyprus if its management and control are exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitute management and control. It is understood that the definition per the OECD model convention in relation to a "place of effective management" is the one followed by the Cyprus tax authorities.

As per the relevant definition:

"The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time."

Therefore, at a minimum, management and control is considered to be exercised where the Board of Directors meet and take decisions.

### *Cyprus tax rates*

With the introduction of a new Cyprus tax legislation, effective as from 1 January 2003, Cyprus tax resident companies are subject to corporation tax on their taxable profits at the rate of 10 per cent. For the years 2003 and 2004 only, any profits above CY£1,000,000 were subject to an additional corporation tax of five per cent.

Cyprus tax resident companies are eligible for treaty benefits under the Cyprus Double Tax Treaty network.

### *Profit from disposal of securities*

Any gains derived by the Company on the disposal of Ukrainian securities would be exempt from Ukrainian withholding tax under the provisions of the Tax Treaty, provided that the Company does not create a PE in Ukraine. Ukrainian taxes may arise in respect of such profits (refer to the Ukrainian tax section).

Any gains derived by a Cyprus tax resident company from the disposal of “qualifying” securities (shares, debentures, bonds, founders’ shares and other securities of companies or other legal persons, incorporated under a law in Cyprus or abroad and options thereon) are exempt from Cyprus income tax.

Any gain from disposal of securities which is deemed to be of a capital nature is not subject to Cyprus income tax and is also outside the scope of capital gains tax provided that the company whose securities are disposed of does not hold any immovable property situated in Cyprus.

### *Dividend income*

Under the provisions of the Tax Treaty, provided that the Company does not create a PE in Ukraine, the rate of Ukrainian withholding tax on dividends would be reduced to 0 per cent.

Dividend income (whether received from Cyprus resident or non-resident companies) is exempt from Cyprus income tax. Dividend income is exempt from Cyprus resident companies from Special Contribution for Defence whereas dividend received from non Cyprus resident Companies is exempt from Special Contribution for Defence under certain participation holding conditions.

In most cases no tax liabilities are expected to be incurred in Cyprus by the Company, either due to a participation exemption, or if not, due to double tax relief under the provisions of the Tax Treaty, provided the proper documentation can be provided to the Cyprus tax authorities. Double tax relief is available by way of credit for foreign tax against Cyprus tax payable in respect of the same item for which the credit is claimed. The credit takes into consideration the Ukrainian withholding tax suffered.

If the participation exemption does not apply and the credit granted under the Tax Treaty provisions is not enough to obtain full credit against the Cyprus tax of 15 per cent., some taxes may be payable in Cyprus.

### *Interest income*

Under the provisions of the Tax Treaty, interest payments from a Ukrainian company to the Company would be exempt from Ukrainian withholding tax.

Any interest received, which is deemed to be of a trading nature (“active” income), will be subject to income tax in Cyprus at the rate of 10 per cent. (after deduction of business expenses) and will be exempt from the defence contribution. Any interest received which is deemed to be “passive income” will be subject to a 5 per cent. effective income tax rate, after the deduction of business expenses and also to a 10 per cent. defence contribution on the gross amount before the deduction of any expenses.

It is expected that any interest income received by the Company from financing its subsidiaries will be deemed by the Cyprus Commissioner of Income Tax to be of a trading nature and will be taxed at the rate of 10 per cent., after the deduction of business expenses.

### *Cyprus withholding taxes*

No Cypriot withholding taxes will apply with respect to any distribution of dividends and interest by a company to non-Cyprus tax resident shareholders (companies and individuals) and Cyprus tax resident companies. Dividends payable to individuals tax resident of Cyprus are subject to a 15 per cent. defence contribution.

The Cyprus tax legislation includes deemed distribution provisions. These provisions do not apply to profits attributable to non-Cyprus tax resident shareholders (companies or individuals).

Any profits attributable to shareholders (companies or individuals) who are Cyprus tax residents are subject to the deemed distribution provisions. These provide that a company, which does not

distribute 70 per cent. of its profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year will be deemed to have distributed as a dividend 70 per cent. of these profits. A defence contribution at 15 per cent. will be payable at the end of the two years on such deemed dividend to the extent that it is attributable to shareholders (companies or individuals) who are Cyprus tax residents. The amount of deemed distribution is reduced by the actual dividend paid out of the profits of the relevant year during the relevant two years.

#### *Capital Duty*

Capital duty is payable in respect of the authorised and issued share capital of a Cypriot company upon its incorporation and upon subsequent changes thereon. The capital duty rates for subsequent changes of the authorised and issued share capital are as follows:

- 0.6 per cent. on the nominal value of additional authorised share capital; and
- CY£10 per cent. flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

#### *Stamp Duty*

Stamp duty arises in Cyprus on “documents” (i.e., contracts/agreements) that relate to:

- (i) assets located in Cyprus
- (ii) transactions or things that will take place in Cyprus

The Cyprus stamp duty rates for contracts are calculated on the value of each contract as follows:

- 0.15 per cent. for the first CY£100,000; and
- 0.2 per cent. thereafter

#### *VAT*

As from 1 February 2002, the Cypriot VAT legislation applied to all Cyprus registered companies. The legislation was subsequently amended to its current form on 1 May 2004, the date of Cyprus accession to the EU.

The provisions of the new VAT legislation are beneficial to the majority of Cypriot companies engaged in activities outside Cyprus. This is because in the majority of the situations, although no VAT is charged on the sales made by such companies (the legislation is not aimed at taxing transactions taking place outside Cyprus), the companies have the right to claim refund of any VAT suffered on expenses and acquisitions made in Cyprus.

Pure holding companies, whose only income is from dividends, are not considered as ‘business persons’ for VAT purposes. As a result they are outside the scope of the Cyprus VAT legislation. However, if they are engaged in any other activities (such as the granting of loans) then they fall within the scope of the Cyprus VAT legislation.

Registration for most Cypriot companies with overseas activities is voluntary but in some cases it will be compulsory.

The granting of loans and provisions of guarantees by the Company are exempt activities, hence no VAT must be charged on any interest income or guarantee (if any). If the granting of loans and the provision of guarantees are made to companies resident outside the EU, then this is an activity for which the right to claim the amount of the related input VAT is granted — whereas this right is not granted when such loans are provided to EU resident companies.

## **12 Intellectual Property**

Save as set forth in this document, the business of the Company and its subsidiaries does not depend on any other material intellectual property.

## **13 Consents and Responsibility Statements**

**13.1** The Directors of the Company, whose names appear on page 9 of this document, accept responsibility, individually and collectively, for the information contained in this document and

compliance with the AIM Rules. To the best 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 there is no omission likely to affect the import of such information. The information contained in this document which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from such third party information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

**13.2** BDO Stoy Hayward LLP has given and not withdrawn its written consent to the inclusion in Part VIII of this document of their Accountant's Report in respect of the consolidated audited financial information of the Company for the year ended 31 December 2004 and the six months ended 30 June 2004 and 2005 and references thereto in the form and context in which they are included.

**13.3** DTZ Kiev B.V. has given and not withdrawn its written consent to the inclusion in Part VII of this document of their valuation report and to the issue of this document with its name included in it and references thereto in the form and context in which it is included for the purposes of Annex I to the AIM PD Rules.

**13.4** DTZ Kiev B.V. accepts responsibility for the information contained in the DTZ Report set out in Part VII of this document and, to the best knowledge and belief of DTZ Kiev B.V., having taken reasonable care to ensure that such is the case, the information contained in such reports is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### **14 Availability of Documents for Inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (excluding public holidays) at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA from the date of this document until the fourteenth day after Admission:

- the Memorandum and Articles of Association of the Company;
- the DTZ Report, a copy of which appears in Part VII;
- the Accountants' Report, a copy of which appears in Part VIII;
- the service contracts for the Directors and certain members of management referred to in paragraph 7 of this Part X;
- copies of the material contracts referred to in paragraph 8.1 of this Part X; and
- the letters of consent referred to in paragraphs 13.2 and 13.3 of this Part X.

#### **15 Availability of this Document**

**15.1** Copies of this document will be available for collection only, free of charge, from the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA during normal office hours on any weekday (public holidays excepted) for a period of not less than one month from the date of Admission.



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