



INVESTING POLICY

Dragon-Ukrainian Properties & Development plc (“DUPD” or “the Company”) is an “investing company” for the purposes of the AIM Rules for Companies. Recent changes to the AIM Rules for Companies require an investing company to have in place an investing policy which is “sufficiently precise and detailed so that it is clear, specific and definitive”. The AIM Rules for Companies provide guidance in relation to what this investing policy is expected to include as a minimum.

As part of the changes to the AIM Rules for Companies, an investing company is also required to ensure that its investing policy is “regularly notified” to Shareholders (i.e. by being placed on an investing company’s website and included in the investing company’s annual accounts).

Overview

The Company was formed in 2007 to invest in the development of new commercial properties and re-development of existing properties in Ukraine which offer the prospect of attractive returns to its shareholders. In the current market environment, the Company is focused on opportunities to acquire completed, or semi completed retail and office properties at distressed valuations, with strong cash flow and low leverage.

Assets or companies in which the Company can invest

The initial focus of the Company is on the development of new and re-development of existing commercial properties in the retail, office and warehousing sectors. However, the Directors also consider alternative types of investment in real estate, including land acquisitions with development potential for residential projects, where they believe such investments will generate appropriate returns for shareholders. The Company is also actively seeking opportunities to enter into sale-and-leaseback arrangements, mainly in the retail sector where the Directors believe such opportunities are likely to be present.

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

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

The Company has adopted a group structure of a type typically employed by overseas owners of Ukrainian real estate assets. The properties are typically owned by Ukrainian SPVs whose shares are typically wholly owned by Cypriot subsidiaries of the Company. The location of subsidiaries in Cyprus allows the Company to take advantage of an existing double taxation treaty between Ukraine and Cyprus. Subject to the limitations contained in applicable tax legislation and treaties, debt financing for the acquisition and development of properties may be provided wholly or partly by other SPVs resident in Cyprus or other tax favourable jurisdictions. The ultimate parent company,

DUPD, is the sole owner of all Cypriot and other subsidiaries with the exception being where part of the project company is owned by DUPD's partner in such project. The Company retains the right to choose the most suitable structure appropriate for each transaction that is entered into by it and from time to time to consider the adoption of other corporate structures. DUPD is domiciled and registered in the Isle of Man.

Strategy by which the investing policy will be achieved

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

Dragon Capital Partners Limited ("the Manager") will be responsible for identifying new investment opportunities for the Company that fall within the investing strategy set out in this document. Once a potential opportunity has been identified, the Manager will carry out a due diligence exercise into the opportunity and, after concluding that the project is suitable, negotiate the purchase or investment or other terms with the relevant counter-party.

Once this process is complete, the proposed opportunity will be presented to the Board. The Board will take the final decision on whether or not to pursue the proposal.

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

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

Whether investments will be active or passive investments

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

Holding period for investments

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

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

Spread of investments and maximum exposure limits

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

Policy in relation to gearing and cross holdings

The Company expects to borrow aggressively to optimise returns for shareholders up to the maximum loan-to-asset value (for the portfolio or any property in the overall portfolio) available under market conditions at the relevant time. Borrowing on any individual property, however, will not, in any event, exceed 75% of the value of that property at the time of its acquisition. The

borrowing policy will be adopted to suit the prevailing market conditions from time to time. The Company will consider raising debt financing by all means including, *inter alia*, bank borrowings, private debt placements or listed debt instruments.

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

Investing restrictions

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

Conflict policy

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

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

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

The level of regular dividends will depend on the rental and other income (including realised capital gains) generated from the properties acquired, investments made or joint ventures entered into by the Company. Once the proceeds of the Placing have been fully invested, the Directors intend to work towards a target dividend yield of 7 to 10% per annum at the \$2.00 placing price and also currently intend that in due course dividends paid by the Company will represent not less than 85% of annual net profits.

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

The investing policy is approved by the Board decision passed on December 14, 2009.