

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

The Directors of the Company, whose names appear on page 3 of this document under the heading "Directors", accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document comprises an admission document for the purposes of the AIM Rules. Any offer of Shares is being made only to qualified investors for the purposes of and as defined in Section 86 of FSMA and accordingly this document does not constitute a prospectus and the Company is not making an offer to the public within the meaning of sections 85 and 102B of FSMA. Therefore this document is not an approved prospectus for the purposes of and as defined in section 85 of FSMA and has not been prepared in accordance with the Prospectus Rules and has not been approved by the FSA or by any other competent authority which could be a competent authority for the purposes of the Prospectus Directive.

Application has been made for the Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Shares will commence on AIM on 15 December 2005. The Shares are not dealt in on any other recognised investment exchange and no other such applications have been made.

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 UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the UK Listing Authority nor the London Stock Exchange has examined or approved the contents of this document.

Prospective investors should read the whole text and contents of this document and should assume that an investment in the Company is speculative and involves a high degree of risk. In particular, prospective investors should carefully consider the section entitled "Risk Factors" in Part IV of this document before taking any action.

---

# Engel East Europe N.V.

*(Incorporated in Holland with the Dutch Chamber of Commerce with registered number 34138775)*

## Placing of 27,777,778 Shares of €0.01 each at 108p per Share and Admission to trading on AIM

Nominated Adviser  
Dawnay, Day Corporate Finance Limited  
Broker  
KBC Peel Hunt Ltd

---

### SHARE CAPITAL ON ADMISSION

<i>Authorised</i>			<i>Issued and Fully Paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
€1,200,000	120,000,000	Ordinary Shares of €0.01 each	€877,777.78	87,777,778

---

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

Dawnay Day has been appointed as nominated advisor to the Company. In accordance with the AIM Rules, Dawnay Day has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Dawnay Day for the accuracy of any information or opinions contained in this document or for the omissions of any material information, for which it is not responsible.

In making any investment decision in respect of the Placing, no information or representation should be relied upon in relation to the Placing, Engel East Europe, any of its subsidiaries or investments or the Placing Shares, other than as contained in this document. 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 representation must not be relied upon as having been authorised.

Certain statements contained in this document may constitute forward-looking statements. Any such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, in one or more of the countries in which the Company operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this document and express the belief, expectation or intention of the Company's management, and there can be no assurance that the results and events contemplated by such forward-looking statements will, in fact, occur. The Company and the Directors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein, save as required to comply with any legal or regulatory obligations (including the AIM Rules), to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not intended for distribution in or into the United States, Canada, Australia, South Africa or Japan. The Shares have not been and will not be registered under the United States Securities Act of 1933 as amended, or any state securities laws and unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and applicable state securities laws. The Shares have not been registered under the securities laws of Canada, Australia, South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

Copies of this document are available for collection, free of charge, from Admission and for one month thereafter during normal business hours from Dawnay, Day Corporate Finance Limited, 17 Grosvenor Gardens, London SW1W 0BD.

## CONTENTS

	<i>Page</i>
Directors, Secretary and Advisers	3
Definitions	5
Placing statistics	7
Expected timetable of principal events	7
PART I Key information	8
PART II Information on the Company	11
PART III Market overview	25
PART IV Risk factors	28
PART V Historical financial information	33
PART VI Pro-forma statement of net assets	54
PART VII Additional information	56
PART VIII Summary of applicable Dutch company law	87

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Jacob Engel <i>Executive Chairman</i> Clair Satchi <i>Chief Executive Officer</i> Nir Netzer <i>Chief Financial Officer</i> Yaron Shama <i>Executive Director</i> Terry Roydon <i>Non-executive Director</i> Marius van Eibergen Santhagens <i>Non-executive Director</i>
<b>Registered Office</b>	Rapenburgerstraat 204 1011 MN Amsterdam The Netherlands
<b>Company Secretary</b>	<b>Holender Ventures B.V.</b> Rapenburgerstraat 204 1011 MN Amsterdam The Netherlands
<b>Nominated Adviser</b>	<b>Dawnay, Day Corporate Finance Limited</b> 17 Grosvenor Gardens London SW1W 0BD United Kingdom
<b>Broker</b>	<b>KBC Peel Hunt Ltd</b> 111 Old Broad Street London EC2N 1PH United Kingdom
<b>Solicitors to the Company as to English law</b>	<b>Berwin Leighton Paisner LLP</b> Adelaide House London Bridge London EC4R 9HA United Kingdom
<b>Solicitors to the Company as to Dutch law</b>	<b>Brada Kuttner</b> Koninginneweg 6 1075 CX Amsterdam The Netherlands
<b>Solicitors to the Placing</b>	<b>Lawrence Graham LLP</b> 190 Strand London WC2R 1JN United Kingdom
<b>Solicitors to the Company as to Israeli law</b>	<b>Chet Sarid Gruber</b> Rubinstein Bldg. 24 Saadia Gaon Street Tel-Aviv 67135 Israel
<b>Reporting Accountants</b>	<b>Deloitte &amp; Touche LLP</b> 1 Little New Street London EC4A 3TR United Kingdom
<b>Auditors to the Company</b>	<b>KPMG Hungaria Kft.</b> 99.Váci Út 1139 Budapest Hungary

<b>Financial PR</b>	<b>Citigate Dewe Rogerson</b> 3 London Wall Buildings London EC2M 5SX United Kingdom
<b>Registrars</b>	<b>Computershare Investor Services (Channel Islands) Limited</b> PO Box 83 Ordnance House 31 Pier Road St Helier Jersey JE4 8PW Channel Islands
<b>Registrars to the Depositary Interest Arrangement</b>	<b>Computershare Investor Services PLC</b> PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH United Kingdom
<b>Independent Property Valuers</b>	<b>Bradmore King Sturge</b> Rákócszi út 70 1074 Budapest Hungary

## DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market operated by the London Stock Exchange known as AIM
“AIM Rules”	the rules published by the London Stock Exchange governing admission to and the operation of AIM
“Arces”	Arces International B.V., a 50 per cent. subsidiary of the Company, incorporated in The Netherlands
“CEE” or “CEE Region”	Central and Eastern European Region
“certificated” or “in certificated form”	not in uncertificated form (that is, not in CREST)
“Company” or “Engel East Europe”	Engel East Europe N.V.
“CREST”	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (as amended) (SI 2001/3755)
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“Controlling Shareholder”	Engel General Developers, which is in turn indirectly controlled by Jacob Engel, the chairman of the Board, through his control of the Engel Group
“Dawnay Day”	Dawnay, Day Corporate Finance Limited, nominated adviser to Engel East Europe
“DCC”	Dutch Civil Code
“Depository Interests” or “DIs”	a dematerialised depository interest which represents an entitlement to Shares
“Directors” or “Board”	the directors of the Company as at the date of this document, whose names are set out on page 3 of this document
“Engel General Developers”	Engel General Developers Ltd., incorporated in Israel
“Engel Group”	a group of Israeli companies, including Engel General Developers, through which Jacob Engel indirectly controls Engel East Europe
“Enlarged Share Capital”	the number of Shares in issue following the Placing
“EU”	European Union
“FSA”	Financial Services Authority of the United Kingdom
“FSMA”	Financial Services and Markets Act 2000
“GDP”	gross domestic product
“Glushette”	Glushette Limited, incorporated in Cyprus, entirely owned by Claire Satchi, chief executive officer of the Company
“Group”	the Company and its subsidiaries

“Heitman Fund”	HCEPP II Luxembourg Master S.Á.R.L, a real-estate investment fund managed by an affiliate of Heitman Financial UK LLC
“KBC Peel Hunt”	KBC Peel Hunt Limited, broker to Engel East Europe
“Lehman Entity”	Montreal Residential Holding Ontario Trust, a trust the beneficiary of which is Lehman Brothers Real Estate Partners II, affiliated with the Lehman Brothers investment group
“London Stock Exchange”	London Stock Exchange plc
“Official List”	the official list of the UKLA
“Placing”	the conditional placing by KBC Peel Hunt, on behalf of the Company, of 27,777,778 new Shares announced on 9 December 2005 pursuant to the terms and conditions of the Placing Agreement as described in this document
“Placing Agreement”	the agreement dated 9 December 2005 between (1) the Company, (2) KBC Peel Hunt, (3) Dawnay Day and (4) the Directors relating to the Placing, details of which are set out in paragraph 9 of Part VII of this document
“Placing Price”	108p per Placing Share
“Placing Shares”	the 27,777,778 Shares to be allotted and issued pursuant to the Placing, such allotment being conditional on Admission
“Prospectus Rules”	the Prospectus Rules published by the FSA
“Registrar”	Computershare Investor Services (Channel Islands) Limited
“Share Option Scheme”	the Engel East Europe 2005 international share option plan
“Shares”	ordinary shares of €0.01 each in the capital of Engel East Europe
“Shareholders”	holders of Shares in the Company
“Subsidiary”	as defined in sections 736 and 736A of the Act
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority” or “UKLA”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“uncertificated” or “in uncertificated form”	recorded in the register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“US” or “USA” or “United States”	the United States of America, its territories and possessions, any state or political sub-division of the United States of America, the District of Columbia and all other areas subject to the jurisdiction of the United States of America
“Volksbank Entities”	jointly refers to Immoconsult Leasing Gesellschaft m.b.H., which is a subsidiary of Österreichische Volksbanken AG, an Austrian bank, and to Emerald Holding Overseas Ltd., which is an agent of Immoconsult Leasing Gesellschaft m.b.H.

## PLACING STATISTICS

Placing Price	108p
Number of Placing Shares	27,777,778
Number of Shares in issue on Admission following the Placing	87,777,778
Market capitalisation on Admission at the Placing Price	£94.8 million
Gross proceeds of the Placing	£30 million
Estimated net proceeds of the Placing <sup>†</sup>	£26.7 million
Placing Shares as a percentage of the Enlarged Share Capital in issue on Admission	31.6%

† Net proceeds of the Placing are after deduction of the expenses of the Placing

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission effective and commencement of dealings in Shares on AIM	15 December 2005
Expected date for CREST accounts to be credited with Depository Interests (where applicable)	15 December 2005
Despatch of definitive share certificates (where applicable)	22 December 2005

## PART I

### Key Information

*The following information is extracted from and should be read in conjunction with the full text of this document. Prospective investors should read the whole of this document, including the risk factors set out in Part IV and not rely solely on the following summarised information.*

#### The Group

Engel East Europe is an international residential property developer. The Group operates in the CEE Region, with operations in Hungary, the Czech Republic, Poland and Bulgaria, as well as in Canada and Germany.

The Group is currently involved in the development of approximately 10,000 residential units in aggregate. These residential projects are in various stages of development. In addition, the Group is in negotiations to purchase land for the development of several thousand additional residential units, throughout the CEE Region.

The Group focuses on sites that are either in major urban areas, or within commuting distance of them. The Group's strategy is to target its developments primarily at the local, middle class sector of the population, which it believes represents a stable market with long term growth potential, especially because of the CEE Region's emerging market status and the recent or anticipated accession to the EU of many of its member states.

The Group is led by an experienced management team, which between them have more than 50 years' experience in the real estate industry.

The Group has expanded its development operations internationally, focusing on maintaining low overhead costs and efficient local management.

The Group's principal objectives are to continue expanding its business activities in emerging European markets and increase its profitability. It focuses on emerging markets which are typically characterised by the following:

- rapid rise in disposable income, resulting in high growth in demand for modern and good quality housing;
- low land and/or low construction costs relative to developed countries;
- fast growing housing mortgage market, with relatively low interest rates;
- existence of a substantial amount of communist-era housing, which is typically of low quality; and
- increases in the rates of housing prices being higher than rates of inflation.

In many of its development projects, the Group has partnered with financial institutions, such as the Heitman Fund, the Lehman Entity and the Volksbank Entities, all of which have co-invested in projects developed by the Group.



<b>The opportunity</b>	<p>The Directors believe that there are a number of factors which make the Company an attractive investment opportunity:</p> <ul style="list-style-type: none"> <li>• rapid growth potential in the CEE Region in future years;</li> <li>• the Group's experience in real estate development and in managing the risks and exploiting the special circumstances unique to the CEE Region;</li> <li>• the Group is involved in the development of approximately 10,000 residential units throughout the CEE Region and Canada, with land for thousands of additional units currently under negotiation; and</li> <li>• funds raised by the Company will allow the Group to obtain land for future developments on favourable terms in the markets in which it currently operates, as well as other emerging European markets, thereby enabling further growth and increasing profitability.</li> </ul>
<b>The Placing and Admission</b>	<p>The Company is issuing 27,777,778 Placing Shares by way of the Placing to institutional investors to raise approximately £26.7 million net of expenses. The Placing Shares will represent approximately 31.6 per cent. of the Enlarged Share Capital of the Company. Further details of the Placing Agreement are set out in paragraph 9 of Part VII of this document.</p> <p>None of the existing Shareholders is selling Shares as part of the Placing.</p> <p>Application has been made to the London Stock Exchange for the whole of the ordinary share capital of the Company issued and to be issued pursuant to the Placing, to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Shares will commence on 15 December 2005.</p>
<b>Reasons for the Placing and use of proceeds</b>	<p>The estimated net proceeds of the Placing are £26.7 million. The reason for the Placing is to raise funds which, when added to the Group's existing cash resources, are expected to finance the Group's expansion, future developments, current developments and working capital.</p> <p>The Directors estimate that approximately one third of the proceeds will be used to finance existing projects and for working capital; the other two thirds will be used for projects currently under negotiation, future projects and expansion.</p>
<b>Dividend policy</b>	<p>The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so, subject to the availability of distributable reserves, the Company's cash position and business objectives.</p>
<b>Controlling shareholder agreement</b>	<p>Jacob Engel, the executive chairman of Engel East Europe, indirectly controls Engel General Developers. Engel General Developers owns 57,900,000 Shares in Engel East Europe, which following the Placing will represent 65.96 per cent. of the Enlarged Share Capital. As such, Jacob Engel is deemed to have effective control of Engel East Europe following the Placing.</p> <p>Dawnay Day, Engel East Europe and the Controlling Shareholder have entered into a controlling shareholder agreement as more fully described in paragraph 18.6 of Part VII of this document.</p>

## The Projects

The table below shows the Directors' estimates of the number of units and total gross projected sales for existing projects, by country.

<i>Country</i>	<i>Number of Projects<sup>1</sup></i>	<i>Number of Units</i>	<i>Total Gross Projected Sales<sup>2</sup> (€'000)</i>
Hungary	3	5,823	445,590
Poland	2	836	42,677
Czech Republic	3	767	66,951
Bulgaria	7	1,574	84,404
Canada	3	975	172,243
Germany	1	216	30,575
Total	<u>19</u>	<u>10,191</u>	<u>842,440</u>

**YOUR ATTENTION IS DRAWN TO THE RISK FACTORS REFERRED TO IN PART IV OF THIS DOCUMENT**

---

1 The existing projects set out above are those projects for which no revenues have been recognised prior to 1 January 2005.

2 These figures are the Directors' estimates and are subject to change. As of 10 November 2005 the Company had sold 898 apartments from the list above. The Group's share of revenue of each project is subject to any co-investment agreement relating to such project.

## PART II

### Information on the Company

#### 1. Introduction

Engel East Europe is an international residential property developer. The Group operates in the CEE Region, with operations in Hungary, the Czech Republic, Poland and Bulgaria, as well as in Canada and Germany.

#### 2. History

Engel East Europe is a subsidiary of Engel General Developers, a large Israeli residential property developer. Engel General Developers has developed numerous residential projects, consisting of thousands of homes, condominiums, townhouses, duplexes, including entire neighbourhoods, throughout Israel.

Engel General Developers, the residential development arm of the Engel Group, was founded by Jacob Engel in 1977. In addition to residential development, it was involved in the construction of a number of public buildings, including a new wing for the Knesset, the Israeli Parliament in Jerusalem; a new arrivals terminal at Ben-Gurion International Airport; a convention centre; the Bnei Zion Hospital in Haifa; and a government hospital in Nahariya.

In 2000, Engel General Developers identified potential in the emerging markets of central and eastern Europe and decided to start developing residential projects in the CEE Region. Engel East Europe was established as a holding company for the development activities of Engel General Developers in the CEE Region.

In 2004, Engel General Developers identified an opportunity for development in the Montreal region of Canada. Later that year it formed a Canadian entity which, through its subsidiaries, acquired the land for the Group's three Canadian projects.

During 2005, Engel East Europe was chosen as the vehicle for Admission to AIM and Engel General Developers transferred to the Company all of its European and Canadian residential operations that were not already held by the Company.

The Group is currently involved in the development of approximately 10,000 residential units in the Czech Republic, Hungary, Poland, Bulgaria, Germany and Canada. These residential projects are in various stages of development.

In addition to approximately 10,000 units in the existing projects, the Group is in various stages of negotiations to purchase land for the development of several thousand additional residential units throughout the CEE Region.

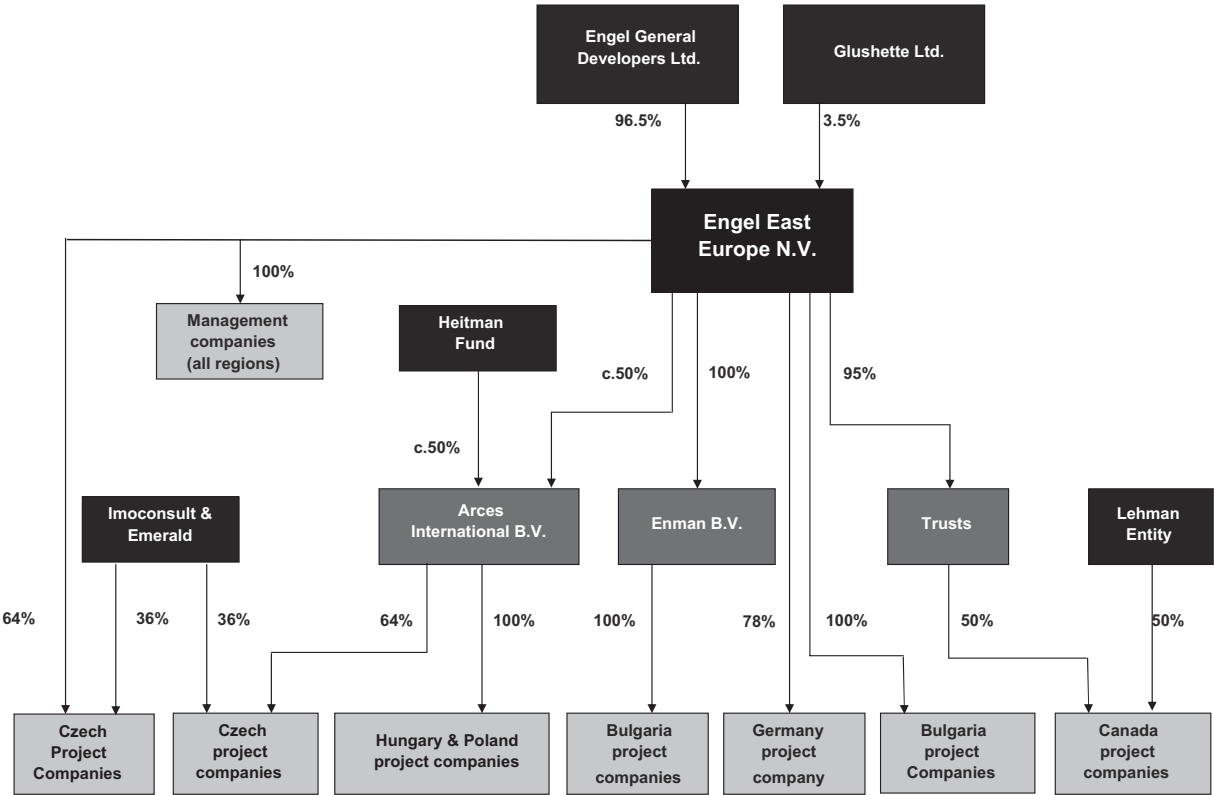
The Group focuses on sites that are either in major urban areas or within commuting distance of them. The Group's strategy is to target its developments primarily at the local, middle class sector of the population. The Directors believe that this sector represents a stable market with long term growth potential, especially in the CEE Region, because of its emerging market status and of the recent or anticipated accession to the EU of many of its member states.

The Group maintains regional offices in all of the countries in which it operates, apart from Germany, using small, local management teams, whose numbers are adjusted according to the level of growth in the local development operations. The Group has managed to expand its development operations internationally, focusing on maintaining low overhead costs and efficient local management. In order to fix its construction costs, the Group typically employs subcontractors on a 'turn-key', fixed cost basis, instead of employing its own construction workers.

The Company generally employs a strategy of risk sharing by partnering with financial institutions which co-invest in development projects. In eight of its projects in Hungary, Poland and the Czech Republic, the Company has partnered with the Heitman Fund. Furthermore, Engel East Europe is in advanced stages of negotiations, following the signing of a letter of intent, for a further joint venture in other projects with an affiliate of the Heitman Fund. Also, the Volksbank Entities own part of four of the Company’s projects in the Czech Republic, and in Canada the Company partnered with the Lehman Entity for its three Canadian projects.

**3. Group corporate structure**

The chart below shows an outline structure of the beneficial holdings of Engel East Europe in the Group companies immediately prior to Admission:



Engel General Developers is part of the Engel Group which is indirectly controlled by Jacob Engel, executive chairman of the Company. Glushette is a company entirely owned by Clair Satchi, chief executive officer of the Company.

The Group’s CEE interests comprise subsidiary companies incorporated in the various jurisdictions, which own (or have rights to acquire or develop), develop, market and sell the various projects set out below:

<i>Project Name</i>	<i>Location</i>	<i>Company’s Beneficial Interest in the Project<sup>1</sup></i>
<b>Hungary</b>		
JuharLiget	4th District, Budapest	50% <sup>2</sup>
Sun Palace	3rd District, Budapest	50% <sup>2</sup>
Raba Site	Gyor	50% <sup>2</sup>

1 Represents the Company’s beneficial holding in the entity holding the rights in these projects. The Group’s portion of the proceeds of these projects may be higher or lower, depending on its arrangements with its partners in these projects, its financing arrangements and the actual results of these projects.  
 2 In partnership with the Heitman Fund.

<i>Project Name</i>	<i>Location</i>	<i>Company's Beneficial Interest in the Project<sup>1</sup></i>
<b>Poland</b>		
Lesna Polana	Zabki	50% <sup>2</sup>
Emilii Plater	Srodmiescie, Warsaw	50% <sup>2</sup>
<b>Czech Republic</b>		
Cervenemu Vrchu	Vokovice, Prague	32% <sup>3</sup>
Safranka	Stodulky, Prague	32% <sup>3</sup>
Rezidence Petrohradská	Vrsovice, Prague	20% <sup>4</sup>
Prokopský dvur	Prague	64% <sup>5</sup>
Barrandovský dvur	Prague	64% <sup>5</sup>
<b>Bulgaria</b>		
Monastirsky Livadi	Sofia	100% <sup>6</sup>
Malinova Dolina	Sofia	100% <sup>6</sup>
Kambanite	Sofia	100% <sup>6</sup>
Gorna Banya 1	Sofia	100% <sup>6</sup>
Gorna Banya 2	Sofia	100% <sup>6</sup>
Ovcha Koupel	Sofia	100%
Tsar Boris	Sofia	100%
<b>Germany</b>		
Rassnitz	Rassnitz	78% <sup>7</sup>

The Company's Canadian interests comprise companies, limited partnerships and trusts, which own, develop, market and sell the following projects:

<i>Project Name</i>	<i>Location</i>	<i>Company's Beneficial Interest in the Project<sup>8</sup></i>
<b>Canada</b>		
Trianon sur Le Golf	Montreal	47.5% <sup>9</sup>
Le Chagall	Montreal	47.5% <sup>9</sup>
Le Quartier Parisien	Montreal	47.5% <sup>9</sup>

The projects in which the Group has partnered with the Heitman Fund are held through Arces. Distributions from Arces are subject to the terms of the agreements, which are summarised in paragraph 18.2 of Part VII of this document. The Heitman Fund has a preference right to receive all the proceeds from Arces until it has been repaid an amount which represents an internal rate of return of 15 per cent. on a certain portion of its investment. Thereafter, and following repayment of any priority loans, the remaining proceeds are split between the Heitman Fund and the Company on a progressive basis, from a minimum of 50 per cent. and up to a maximum of 70 per cent. of the proceeds to the Company, depending on the internal rate of return achieved by the Heitman Fund.

- 
- 1 Represents the Company's beneficial holding in the entity holding the rights in these projects. The Group's portion of the proceeds of these projects may be higher or lower, depending on its arrangements with its partners in these projects, its financing arrangements and the actual results of these projects.
  - 2 In partnership with the Heitman Fund.
  - 3 In partnership with the Heitman Fund and the Volksbank Entities.
  - 4 In partnership with the Heitman Fund, the Company's CEO and the former manager of the Company's operations in the Czech Republic.
  - 5 In partnership with the Volksbank Entities.
  - 6 The Group has signed a letter of intent and is currently in advanced negotiation stages with an affiliate of the Heitman Fund regarding an investment in these projects, as well as in several future projects. Should these negotiations be consummated, the Company's beneficial control in these projects will be 50 per cent.
  - 7 In partnership with a non-affiliated company. The Group is entitled to 50 per cent. of the profits from the project.
  - 8 Represents the Company's beneficial holding in the entity holding the rights in these projects. The Group's portion of the proceeds of these projects may be higher or lower, depending on its arrangements with its partners in these projects, its financing arrangements and the actual results of these projects.
  - 9 In partnership with the Lehman Entity and a company owned by the project manager of the three projects in Canada.

The Canadian projects in which the Company has partnered with the Lehman Entity are held through a partnership. The Company has a 47.5 per cent. beneficial interest in the partnership. Proceeds from the partnership are subject to the terms of the limited partnership agreement, which is summarised in paragraph 18.3 of Part VII of this document. All proceeds from the projects are distributed in accordance with the funding provided, being approximately 80 per cent. from the Lehman Entity and 20 per cent. from the Company, until an annual rate of return of 17-20 per cent. has been achieved by each partner. Thereafter, the proceeds are split between the Lehman Entity and the Company on a progressive basis, from a minimum of 45 per cent. and up to a maximum of 55 per cent. of the proceeds to the Company, depending on the rate of return achieved by the partnership.

The Company has five active management companies, each incorporated in the jurisdictions in which they operate, except Bulgaria and Germany. These companies are wholly owned by the Company and are engaged in the management of the Group's projects and operations, for which they receive a management fee. The responsibility for the projects is typically divided among the different management companies based on their jurisdiction of incorporation.

#### **4. Principal activities and new developments**

##### *Hungary*

##### *1. Juharliget, District IV, Budapest*

The project is located in District IV of Budapest, in a developing area characterised by mixed residential, retail and logistics in the north of Pest.

The development benefits from the fact that it is located in a secluded area. The site occupies 30,845m<sup>2</sup> of land and the development comprises 13 independent apartment buildings, a row of 24 semi-detached family houses and underground garage parking. Each apartment building provides between 14 and 18 residential units, with the ground floor level providing retail and commercial office space as well as garden apartments and further surface parking.

In March 2005, the construction of this project was completed and all 273 residential units have been sold. Some of the retail areas and parking spaces have not yet been sold.

##### *2. Sun Palace, District III, Budapest*

The project is located on the banks of the Danube river, on the Central Buda side of Budapest. The development benefits from views over the river and the surrounding area has been subject to a great deal of investment recently.

The development occupies 14,868m<sup>2</sup> of land and is being built in 2 phases. Phase 1 is a completely new construction while phase 2 will incorporate the façade of a former preserved building, giving purchasers the opportunity to occupy loft-style apartments.

Phase 1, currently under construction, will consist of approximately 264 residential units and phase 2 of approximately 285 units over 9 floors. There will be commercial and retail space, a gym, a swimming pool and underground parking. The construction of phase 1 is expected to be concluded during January 2006 and construction of phase 2 is expected to commence by the end of 2005.

##### *3. Raba Site, Győr*

The city of Győr is located approximately 100km due west of Budapest, approximately half way between Vienna and Budapest. It has grown extensively in the past 6 years, partly as a result of the expansion of the local Audi manufacturing plant and its associated suppliers.

The site was formerly owned by Rába Rt., a national automotive components manufacturer. The Raba site represents the Group's largest project and is located in the eastern part of Győr. The site occupies a total area of approximately 430,000m<sup>2</sup>. It is bordered on the north side by the 'Moson

Danube', a tributary of the River Danube and the old city centre on the west side. A Group company has entered into agreements with the land owners which give it the right to purchase the land in Győr in exchange for a percentage of the sale proceeds of the completed apartments. Certain further details of these agreements are set out in paragraph 18.5 of Part VII of this document. The ownership of each phase of the project will be transferred to the Group company prior to the sale of the apartments. The Group company has obtained a change of zoning for the site from industrial to residential and commercial use. The Group company intends to construct, in phases, an entire neighbourhood consisting of approximately 5,000 residential units. Retail and commercial developments, parks, kindergartens, petrol stations, roads and other infrastructure will also be incorporated into the site. Sales of the first building commenced in September 2005 and construction of the first phase is scheduled to begin in early 2006.

## *Poland*

### *1. Lesna Polana, Zabki, Warsaw*

This project is located in a suburb on the outskirts of Warsaw on a greenfield site, in a developing residential area in southern Zabki, 9km north east of Warsaw city centre. There are two separate, adjacent sites occupying a total of 39,114m<sup>2</sup> of land. A Group company has started the construction of the first building, which is scheduled for completion by February 2006. Work on the second building is due to start by the end of 2005.

Site one, when completed, will consist of four apartment blocks with a total of 324 residential units and underground and surface parking. The Group company plans the development of a further four apartment blocks on site two, with a total of 444 residential units. The Directors are planning to construct a total of 768 residential units on both sites.

The finished development will also include internal roads, pavements, two porters' lodges, playgrounds and leisure areas. There will be a range of apartment configurations and sizes, ranging from single rooms to four-room apartments, with an average size of 55m<sup>2</sup>.

### *2. Emilii Plater, Warsaw*

This site occupies 1,813m<sup>2</sup> of undeveloped land and is located in central Warsaw, near the Marriott Hotel and the Central Train Station. The site is well placed for residential and commercial purposes.

The Group company intends to construct approximately 68 residential units with a gross internal area of 6,998m<sup>2</sup>, together with parking spaces, while the remainder of the site will be split between retail and office space.

## *The Czech Republic*

### *1. Prokopsky dvur, Prague*

This project was the Group's first project in the CEE Region and is located on 7,704m<sup>2</sup> of land near a nature reserve in the Prague 5 district. The project consists of a building surrounding a green playground and includes parking spaces and storage.

A Group company has finished construction of the project, which consists of 72 residential units, all of which have been sold.

### *2. Barrandovsky dvur, Prague*

This site occupies approximately 3,500m<sup>2</sup> of land in the Prague 5 district, on which a complex with balconies, parking spaces and storage places was constructed.

A Group company has completed the development of the project, which consists of 124 residential units. All of the units have been sold, although some parking spaces remain unsold.

### *3. Rezidence Petrohradská, Vrsovice, Prague*

The project is located in the Prague 10 district, on 1,094m<sup>2</sup> of land. It is located on the fringe of the city centre in a residential area among traditional buildings, just off one of the main western arterial roads leading out of the city.

Construction of this project, which consists of 57 residential units, 2 shops and 52 parking spaces, has been completed, with only 3 residential units remaining unsold.

#### 4. *Cervenemu Vrchu, Vokovice, Prague*

The property lies on 11,240m<sup>2</sup> of land in the Prague 6 district, a predominantly residential area in the northwest of the city. It is located on Cervenemu Vrchu, a local street off of the main Evropska road, the main road leading into the city centre from Prague International Airport. The site benefits from bordering Sarka Park, a protected forest area.

At the moment, there is an abandoned villa on the site but the Group company developing this project plans to develop three apartment buildings, with 161 residential units and parking. The Group company is in the process of obtaining a planning permit for the site. However, this has been delayed due to ongoing negotiations with the municipality and the metro company regarding the new metro line planned to be constructed nearby.

#### 5. *Safranka, Stodulky, Prague*

This site lies on 66,136m<sup>2</sup> of land in the Prague 5 district. It is an undeveloped piece of land located in a predominantly residential area of the city, adjacent to the main western arterial road that leads into the city centre.

The project will be developed in 4 phases and the completed development will comprise approximately 525 apartments and 24 townhouses, with underground parking. Construction of phase 1 started in September 2005.

### ***Bulgaria***

#### 1. *Kambanite, Sofia*

The property lies in the southern outskirts of Sofia, close to Mount Vitosha and is bordered on the south eastern side by the Anglo-American school, which is currently under construction. Sofia city centre is 15km away, and the site has access to the ring road.

This site covers 9,720m<sup>2</sup> of land, and has recently been acquired. A Group company is looking to develop a secure gated community with approximately 20 luxury houses and car parking. The land has been zoned for residential use and planning permission has been granted, with construction expected to start by mid 2006.

#### 2. *Ovcha Koupel, Sofia*

The site is located on the outskirts of Sofia, 5.7km south-west of the city centre. The surrounding area is mainly greenfield and the development will benefit from views of Mount Vitosha to the south.

The land is zoned for residential use and a Group company has submitted application for building permits, the plan being to develop approximately 50 apartments, underground car parking, surface car parking and shops on the ground floor.

#### 3. *Tsar Boris, Sofia*

Located on the south-westerly outskirts of Sofia, this site lies approximately 5.7km from Sofia city centre. The plot covers 4,700m<sup>2</sup> and is situated between two avenues, 2km north of Vitosha National Park.

A Group company plans to build approximately 165 apartments with underground parking. The land has been zoned for residential use and planning permission has been granted. The application for a building permit has been made and construction is due to start within the next few months. The development has been designed so that a majority of the apartments face south, towards Mount Vitosha. The project will benefit from an indoor swimming pool, a gym and landscaped gardens.



#### 4. *Malinova Dolina, Sofia*

This site lies on the southern outskirts of Sofia, approximately 8km south-east of the city centre, in the area of Malinova Dolina. The University of National and World Economy is located 1.8km from the site and both the National Academy of Sports and the Winter Palace of Sports are within 1km of the site.

The plot covers 19,877m<sup>2</sup> and is undeveloped at present. A Group company plans the construction of a 3 storey apartment building, comprising approximately 281 apartments, underground parking, and a number of surface parking spaces. The project will be built in 2 phases, the first being the construction of approximately 140 apartments and the second being approximately 141 apartments. The Group company has signed a preliminary purchase agreement with the private owners of this land, and the deal is expected to close by the end of 2005. This land is zoned for residential use and the Group company is in the process of obtaining planning permission.

#### 5. *Monastirski Livadi, Sofia*

The site lies on the southern outskirts of Sofia, approximately 5km south-west of Sofia city centre, in the area of Monastirski Livadi. The plot covers 4,888m<sup>2</sup> and is currently undeveloped. The development will comprise approximately 90 apartments, underground parking and a number of surface parking spaces. The site is zoned for residential use.

#### 6. *Gorna Banya 1, Sofia*

Located on the outskirts of Sofia, this site lies approximately 7km south-west of Sofia city centre and 4km north of the Vitosha National Park. The new Bulgarian university is also nearby and the development will have good access to the Sofia ring road.

The plot covers 10,760m<sup>2</sup> and is currently undeveloped. A Group company plans to develop approximately 540 apartments, with underground car parking. The Company has entered into an agreement with the land owner, whereby the land owner retains an interest in the land but ownership of the construction rights and buildings erected on the land shall be transferred to the Group company. The parties have agreed to sign the documents required for the transfer of the construction rights to the Group company.

#### 7. *Gorna Banya 2, Sofia*

Additionally, the Company has entered into a memorandum of understanding for the purchase of a second, adjacent, plot of land, on which the Company estimates it could be possible to develop a further 450 units.

In both agreements, the land will be paid for with a percentage of the proceeds from the sale of the apartments.

### *Canada*

#### 1. *Trianon sur Le Golf, Montreal*

The project will be a multi-residential development consisting of 3 buildings of 5 storeys each, offering a total of 165 units with underground parking.

The site is located in the former City of Saint-Laurent, a typical low density residential suburb developed primarily between 1950 and 1975. Saint-Laurent Borough is an economic centre of the greater Montreal region and is easily accessible via several highways as well as by major arteries and the public transportation network.

Surrounding the site are good quality condominiums and apartment buildings. The project "Trianon sur le Golf" is located just beside the "Le Challenger" golf course. A Group company has obtained building permits and construction will start as soon as a pre-determined level of pre-sales of the first building are achieved (a condition for bank provision of construction finance).

## 2. *Le Chagall, Montreal*

This multi-residential project will be located in Côte-Saint-Luc, a secluded suburb. The project will consist of two towers of 17 storeys each, including penthouses, offering a total of 198 units and underground car parking. The first phase of construction will start as soon as a pre-determined level of pre-sales of the first building pre-sales are achieved (a condition for bank provision of construction finance).

## 3. *Le Quartier Parisien, Montreal*

The development is located on the corner of Thimens Boulevard and Cavendish, close to the amenities and the Place-Vertu shopping center. The site is situated in the City of Saint Laurent in an economic centre of the greater Montreal region. It will be a multi-residential project consisting of six buildings of 13 storeys, with 632 residential units. Construction will commence as soon as a pre-determined level of pre-sales of the first building are achieved (a condition for bank provision of construction finance).

## *Germany*

### 1. *Rassnitz*

The site is situated in the countryside, between Halle and Leipzig, not far from an industrial area. It occupies 156,000m<sup>2</sup> of land on which the Company intends to develop approximately 216 houses. The land is not yet fully paid for and the Company is negotiating with the municipality regarding permits. Title to the land will be transferred to the Company upon completion of payment.

The table set out below shows the Company's management projections of the number of units that will be developed for each project and the total gross estimated sales for that project.

<i>Projects</i>	<i>No. Units</i>	<i>Total Gross Estimated Sales<sup>10</sup> (€'000)</i>
Juharliget, Hungary	273	18,168
Sun Palace, Hungary	550	53,676
Raba, Hungary	5,000	373,746
Lesna Polana, Poland	768	29,897
Emilii Plater, Poland	68	12,780
Rezidence Petrohradská, Czech Republic	57	5,746
Cervenemu Vrchu, Czech Republic	161	15,260
Safranka, Czech Republic	549	45,945
Kambanite, Bulgaria	20	4,250
Ovcha Koupel, Bulgaria	50	2,146
Tsar Boris, Bulgaria	165	11,172
Malinova Dolina, Bulgaria	281	15,200
Monastirski Livadi, Bulgaria	90	4,745
Gorna Banya 1, Bulgaria	518	26,310
Gorna Banya 2, Bulgaria	450	20,534
Trianon sur Le Golf, Canada	165	28,754
Le Chagall, Canada	178	50,876
Le Quartier Parisien, Canada	632	92,613
Rassnitz, Germany	216	30,575
Total Existing Projects	<u>10,191</u>	<u>842,440</u>

## 5. **Corporate strategy**

Engel East Europe continues to look for opportunities in emerging European markets. The Company believes that key levels of economic and political development have been attained in these economies, creating stability and rapid economic growth. Within these markets the Company relies on regional analyses in order to identify which countries fit its strategies, as set out below.

<sup>10</sup> The Company's management projections are estimates of the total units and total sales of each project and are subject to change. The Group's share of revenue of each project is subject to any co-investment agreements relating to such project. The projects set out above are those projects for which no revenues have been recognised prior to 1 January 2005.

The Company's principal objectives are to continue expanding its business activities and to increase profitability.

Engel East Europe employs the following strategies to achieve these objectives:

- fixing costs and minimising risk in real estate development;
- exploiting the management team's experience to identify potential development sites with relatively low land costs and high profit margins primarily located in, or within commuting distance of, major population centres;
- adoption of flexible phased development plans, where the number of residential units in each phase is adjusted to the level of demand;
- employing main contractors to construct its development projects on fixed price, "turn-key" contracts. The majority of the sales work and the architectural work are provided by third party companies. This minimizes overhead costs by enabling the Group to maintain a relatively small number of employees. The Group's streamline operations enable it to adjust quickly to changing market conditions;
- aiming to acquire land mostly once it has been zoned for residential use;
- using established local agents to sell its residential units;
- agreements with certain vendors, pursuant to which the Group undertakes to pay for the land through an agreed percentage of future project proceeds, instead of cash payment, thus substantially reducing its development risks; and
- the Company partners with large, international, financial institutions, such as the Lehman Entity or the Heitman Fund, which invest most of the capital required for the projects.

In 2004 the Company identified an opportunity in Canada to purchase land at an attractive price. However, following the build out and sale of the current Canadian projects, the Company intends to focus purely on European emerging markets.

## **6. Market opportunity and prospects**

Engel East Europe focuses on emerging markets which are typically characterised by a rapid increase in disposable income, resulting in high growth in demand for modern and good quality housing; low land and/or low construction costs relative to developed countries; a fast-growing housing mortgage market, with relatively low interest rates; the existence of a substantial amount of Communist-era housing, which is typically of low quality; and higher rates of increase in house prices than local rates of inflation.

## **7. Directors and employees**

### ***Board of Directors***

#### **Jacob Engel, Executive Chairman, age 56**

Mr. Engel has 30 years' experience in the real estate industry, including the development and construction of various types of residential, commercial and public buildings. In 1977 Mr. Engel founded Engel General Developers, which has been the main vehicle for his real estate development operations. Mr. Engel holds a degree in mechanical engineering from the Technion, the Israeli Institute of Technology. The Engel Group owns numerous real estate properties, including commercial centres, office buildings and logistic centres, which are leased to third parties. He is also the chairman of the board of ACS-Tech80 Limited, a technology company. Mr. Engel is also chairman of other companies within the Engel Group.

#### **Clair Satchi, Chief Executive Officer, age 60**

Ms. Satchi holds a B.A. in Economic and Political Science from Tel Aviv University. She holds an Israeli Certified Public Accountant's licence and has a number of years of experience in the initiation and development of real estate developments. From 1978 to 1983 Ms. Satchi was the general manager of a Venezuelan construction company, Elilan S.A. Thereafter she was the controller of the investment company of Solel Boneh Ltd and then the chief financial officer of WIZO, the Women's International Zionist Organisation. Ms. Satchi joined the Engel Group in 1999.

### **Nir Netzer, Chief Financial Officer, age 35**

Mr. Netzer holds a Bachelors degree in Business Management and Accounting from The Academic College of Management and holds an Israeli Certified Public Accountant's licence. Mr. Netzer has previously worked for Pricewaterhouse Coopers in Israel. He leads the economic, reporting, accounting and tax departments of the Company.

### **Yaron Shama, Executive Director, age 36**

Mr. Shama holds a Bachelors degree in Business Management and Accounting from the Academic College of Management in Tel Aviv. He obtained a Certified Public Accountant's licence in Israel in 1997 and in 1999 became a senior auditor at Weizman & Co. Thereafter Mr. Shama was appointed as the financial manager of a subsidiary of Hapoalim Investment Group and as the financial manager for the Plaza Centers Group in Poland, a developer of shopping centres, where he was responsible for the financial and administrative management of shopping centres. Currently, Mr. Shama is the managing Director of the Group in Poland.

### **Terry Roydon, Non-executive Director, age 58**

Mr. Roydon holds a B.Sc. in Estate Management from the University of London and a Masters in Business Administration from the University of Pittsburgh. He was previously chief executive of Prowting Plc, a UK housebuilder, which he led to flotation on the London Stock Exchange in 1988. The company was subsequently purchased by Westbury Plc in June 2002 for £140 million. Since 1998 he has been a consultant and member of the supervisory board of Dom Developments S.A., a major Polish residential developer, together with a number of non-executive and consultancy positions in UK and continental housebuilding companies. From 1995 to 1997, he was president of the European Union of Housebuilders and Developers.

### **Marius van Eibergen Santhagens, Non-executive Director, age 54**

Mr. van Eibergen Santhagens has 20 years corporate finance experience. From 1985 to 1996 he held various positions at Generale Bank Nederland N.V., a part of the Fortis Group. From 1996 to 1999 Mr. van Eibergen Santhagens was a registered interim manager, consulting at Beauchamp Leasing, Metro B.V. He was also chief executive officer of Gebr Bakker Zaadteelt en Zaadhandel B.V., a Dutch vegetable seed company with subsidiaries in Tanzania and the US.

### ***Employees***

At the date of this document, the Group has 38 employees, 6 of whom are located in Israel. The remaining employees are employed by Group companies in other jurisdictions in which it operates.

The table below shows the geographical breakdown of employees by their main activity.

<i>Country</i>	<i>Total No. of Employees</i>	<i>Management</i>	<i>Engineering</i>	<i>Sales</i>	<i>Accounting</i>	<i>Administration</i>
Israel	6	3	1	—	1	1
Hungary	15	2	4	4	2	3
Bulgaria	3	2	—	—	1	—
Czech	6	1	1	1	2	1
Poland	5	1	2	—	1	1
Canada	3	1	—	—	1	1

## **8. Employee Share Option Scheme**

The Company has established the Share Option Scheme in order to provide an incentive to executives and employees. Details of the Share Option Scheme are set out in paragraph 20 of Part VII of this document. No options under the Share Option Scheme will be granted prior to Admission.

## 9. Corporate governance

### *Board Practices*

In The Netherlands, it is possible for public limited companies (“*naamloze vennootschappen*” or “N.V.”) (other than larger public companies which must operate a two tier structure) to operate under a one tier governance structure or two tier governance structure. The Company operates a one tier governance structure in which a single board contains both executive and non-executive directors.

Dutch law requires that the composition and functioning of a board comprising both members having responsibility for the day-to-day running of the company (executive directors) and members not having such responsibility (non-executive directors) shall be such that proper and independent supervision by the latter category of members is assured. As such, the executive Directors of the Company are authorised to represent the Company whilst the non-executive Directors are not authorised to represent the Company, unless given prior approval by the Board.

The Board will meet regularly throughout the year. To enable the Board to perform its duties, each Director will have full access to all relevant information. If necessary, the non-executive Directors may take independent professional advice at the Company’s expense.

In line with the Dutch Corporate Governance Code (“Code”), the Board has decided to create three standing committees: the audit committee, the remuneration committee and the nomination committee. The committees are appointed by the Board from among the non-executive directors. The terms of reference of the committees has been supplemented with additional provisions from the Combined Code on Corporate Governance published by the Financial Reporting Council and as applicable to AIM companies (using the guidance for AIM companies issued by the Quoted Companies Alliance in July 2005). A brief description of the terms of reference of the committees is set out below. The constitution of the audit committee does not fully comply with the guidelines under the Code as it is composed of only two non-executive directors, rather than the three non-executive directors required under the Code.

### *The Code*

The Company acknowledges the importance of good corporate governance and has, to the extent possible, implemented most of the best practice provisions of the Code in its corporate governance structure and articles of association.

Best practice provision III.2.2. of the Code stipulates that the majority of the members of the Board shall be non-executive directors and be independent within the meaning of best practice provision III.2.2 of the Code. The composition of the Board does not fully comply with the provisions of the Code as the Code provides that the majority of Board members should be non-executive and the Board of the company is composed of 4 executive and 2 non-executive members. As such, the Company is not fully compliant with best practice provision III.2.2.

### *The remuneration committee*

The remuneration committee is comprised of a minimum of two non-executive board members and shall meet at least twice a year. Effective as of Admission, the remuneration committee is chaired by Marius van Eibergen Santhagens and the other member is Terry Roydon. Pursuant to the terms of reference governing the remuneration committee, the remuneration committee prepares proposals concerning remuneration policies for the executive members of the Board and the individual remuneration of executive members of the Board for adoption by the Board. In addition, the remuneration committee prepares the annual remuneration report on the remuneration policies of the Company.

### *The nomination committee*

Pursuant to the terms of reference governing the nomination committee, the nomination committee is comprised of a minimum of two non-executive directors and meets at least twice a year (pursuant to the terms of reference). Effective as of Admission, the nomination committee is chaired by Terry

Roydon and the other member is Marius van Eibergen Santhagens. Pursuant to the rules governing the nomination committee, the nomination committee prepares selection criteria and appointment procedures for members of the Board.

#### *The audit committee*

Pursuant to the terms of reference governing the audit committee, the audit committee is comprised of a minimum of two non-executive board members and meets at least four times a year. Effective as of Admission, the audit committee is chaired by Terry Roydon and the other initial member is Marius van Eibergen Santhagens. Pursuant to the rules governing the audit committee, the audit committee supervises and monitors, and advises the Board on, risk management and control systems, and supervises the implementation of codes of conduct. In addition, the audit committee supervises submission by the Company of financial information and a number of other issues.

### **10. Reasons for the Placing and use of proceeds**

The Company plans to use the funds raised from the placing to finance the Group's expansion, future developments, current developments and working capital.

Approximately one third of the proceeds will be used to finance existing projects and for working capital, while the remaining two-thirds will be used for projects currently under negotiation, future projects and expansion.

### **11. Dividend policy**

The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so, subject to the availability of distributable reserves, the Company's cash position and business objectives.

A Dutch company, such as the Company, may only pay dividends by using available profits. Dividends may be distributed when (and only to the extent that) the Company's equity exceeds the actual contributed amount and the paid-up part of the issued capital increased with the statutory reserves and reserves required to be maintained by the articles of association (article 2:105 sub 2 DCC).

Payment of dividends is only possible after adopting the annual accounts, unless the articles of association state otherwise (article 2:105 sub 3 DCC). The annual accounts should be dated no more than six months prior to the date of the dividend payment in determining the amount of profits available. In addition, in order to pay the dividend the board must make a determination that there is no reasonable risk that the dividend distribution will prevent the company from meeting its current and foreseeable obligations when due. The Dutch law provisions relating to a repurchase of its own shares by a Dutch company provide that a company may only purchase shares in its own capital if: (a) its net assets less the acquisition price are not less than the sum of the paid and called up part of its capital and the reserves which must be maintained by law or under the articles; (b) the nominal amount of the shares in its capital which the company acquires, holds, holds as a pledgee or which are held by a subsidiary company, is not more than 50 per cent. of the issued capital; and (c) the articles of association allow for it.

### **12. Pro forma statement of net assets**

Following the Placing, the unaudited pro forma net assets of the Group will be approximately €44.4 million as set out in Part VI of this document. This is based on the unaudited consolidated net assets of the Group as at 30 June 2005 as adjusted for the acquisition in November 2005 of the Canadian and German operations and for the Placing.

### **13. Details of the Placing and Admission**

The Company is issuing 27,777,778 Placing Shares by way of the Placing to institutional investors to raise approximately £26.7 million net of expenses. The Placing Shares will represent approximately 31.6 per cent. of the enlarged issued share capital of the Company. Further details of the Placing Agreement are set out in paragraph 9 of Part VII of this document.

Application has been made to the London Stock Exchange for the whole of the ordinary share capital of the Company issued and to be issued pursuant to the Placing to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Shares will commence on 15 December 2005.

#### **14. Share dealing code**

The Company has adopted, with effect from Admission, a share dealing code for the Directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The share dealing code also takes note of the Dutch model rules for share dealings as referred to in section 47f of the Act on the Supervision of the Securities Trade 1995.

#### **15. Lock-in and orderly market arrangements**

None of the existing Shareholders is selling Shares as part of the Placing.

Under the terms of the lock-in arrangements, Engel General Developers and Glushette have undertaken to the Company, Dawnay Day and KBC Peel Hunt that, without the prior consent of KBC Peel Hunt, Dawnay Day and the Company, they shall not dispose of (subject to certain specified exceptions) any of their Shares for a period of one year immediately following Admission. For a further six months after the expiry of such period, any disposal of their Shares will be made with the consent (not to be unreasonably withheld or delayed) of the Company, KBC Peel Hunt and Dawnay Day and, for this period and thereafter, through KBC Peel Hunt for so long as it continues to be the Company's broker, in order to preserve an orderly market in the Shares.

Further details of the lock-in arrangements are set out in paragraph 9 of Part VII of this document.

#### **16. CREST trading in Shares, Depository Interests and ISIN number**

The Company's articles of association permit it to issue Shares in uncertificated form in accordance with the CREST Regulations. CREST is a computerised share transfer and settlement system in the UK. The system allows shares and other securities to be held in electronic form rather than paper form, although a shareholder can continue dealing based on share certificates and notarial deeds of transfer without using CREST. For private investors who do not trade frequently, this latter course is likely to be more cost-effective.

The Company, through Computershare Investor Services PLC, has established a depository facility whereby Depository Interests, representing Shares, will be issued to Shareholders who wish to hold their Shares in electronic form in CREST. The Company will apply for the Depository Interests to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Shares following Admission may take place within CREST, if the relevant Shareholders so wish. Depository Interests will have the same international security identification number (ISIN) as the underlying Shares and will not require a separate application for admission to trading on AIM.

For more information concerning CREST, Shareholders should contact their brokers or CRESTCo at 33 Cannon Street, London EC4M 5SB.

Trading in Depository Interests on AIM will require Shareholders to deal through a stockbroker or other intermediary who is a member of the London Stock Exchange. Shareholders resident outside the UK should ensure that their stockbroker is either a member of the London Stock Exchange or has in place arrangements allowing them to effect trades on AIM.

It should be noted that if at any time a CREST member requires any further information regarding the depository arrangement and the holding of Shares in the form of DIs or wishes to withdraw its Depository Interests from CREST and hold Shares in dematerialised registered form, they should contact Computershare Investor Services PO Box 82, The Pavilions, Bridgwater Road Bristol BS99 7NH, telephone 0117 305 1075 for such further information or in order to comply with Dutch notarial regulations relating to such transfer. Further details of the depository arrangements are set out in paragraph 19 of Part VII of this document.

The ISIN number of the Shares is NL 0000051043.

## **17. Controlling Shareholder**

Jacob Engel, the executive chairman of Engel East Europe, indirectly controls the Engel Group. The Engel Group owns 57,900,000 Shares, which following the Placing will represent 65.96 per cent. of the Enlarged Share Capital. As such, Jacob Engel is deemed to have effective control of Engel East Europe following the Placing.

Engel East Europe is satisfied that it is capable of carrying on its business independently of Engel General Developers, and that all transactions and relationships between Engel East Europe and Engel General Developers are and will continue to be at arm's length and on a normal commercial basis.

To ensure that this is the case, Engel East Europe has entered into a controlling shareholder agreement with Engel General Developers and Dawnay Day (a summary of which is set out in paragraph 18.6 of Part VII). If a conflict of interest arises between Engel General Developers and Engel East Europe, it will be dealt with by a committee comprising only Directors who are independent of the Controlling Shareholder, and Jacob Engel will take no part in the Board's decisions on the matter.

## **18. Taxation**

The attention of Shareholders is drawn to the information contained in paragraph 21 of Part VII of this document. If you are in any doubt as to your tax position, you should contact your professional adviser immediately.



## PART III

### Market Overview

#### 1. Bulgaria

GDP 2004	\$24 billion <sup>(e)</sup>	Inflation 2004	6.1% <sup>(e)</sup>
GDP 2005	\$29 billion <sup>(f)</sup>	Inflation 2005	4.2% <sup>(f)</sup>
Eurozone economy	by 2009	Exports growth (2005/2004)	22.0%
Currency	Lev	Imports growth (2005/2004)	22.5%

(e) Estimate

(f) Forecast

#### *Economic overview*

Since joining NATO in April 2004, and following the completion of the EU accession negotiations in June 2004, the Bulgarian economy has continued to expand, with industry in particular providing a significant boost to employment.

#### *National residential trend*

While demand remains the dominant market driving force, the increase in supply is beginning to redress the balance. The supply of high-end properties continued to increase throughout 2004. It is forecast that this trend will result in the slowing down of the very high growth rates, in prices and volumes, seen in the high and middle market segments. At the same time, the increasing affordability of long-term mortgages is expected to stimulate demand in the middle to low market range. New projects in Sofia are typically becoming larger in scale and with this, the provision of additional development amenities, such as ground floor retail, spa and green areas, is also advancing. As the city expands, neighbourhoods that have not traditionally been desirable for residential use have started to develop as attractive alternative locations for large-scale developments.

#### *International input*

Over the past two years, the Bulgarian market has seen a considerable increase in international activity, with a growing number of foreign developers and buyers looking to benefit from the relatively high yields and the expected growth in capital values.

#### 2. The Czech Republic

GDP 2004	\$106.1 billion <sup>(e)</sup>	Inflation 2004	2.8% <sup>(e)</sup>
GDP 2005	\$130.3 billion <sup>(f)</sup>	Inflation 2005	3.3% <sup>(f)</sup>
Eurozone economy	by 2010	Exports growth (2005/2004)	15.7%
Currency	Koruna	Imports growth (2005/2004)	20.0%

(e) Estimate

(f) Forecast

#### *Economic overview*

The Czech Republic experienced a 3.6 per cent. output growth over 2004 through a combination of strong exports and private investment. The inflationary spike suffered by all countries on entry to the European Union was exacerbated by tax rises and high oil prices, although it is expected to stabilise at around its current level.

#### *National residential trend*

Property prices experienced a significant rise in anticipation of the Czech Republic joining the EU. Despite higher residential values and falling rental yields, in Prague especially, developers have not been deterred. While market prices at the luxury end of the market have dropped considerably since 2000, demand is now more apparent for mid-market residential product. Regulated rents throughout the country remain a strong political issue resulting in various market inefficiencies. In terms of mortgage finance, banks are increasingly offering loans of up to 100 per cent. loan-to-value to a broader spectrum of the market.

### *International input*

In recent years there has been a large influx of foreign investors, particularly British and Irish, seeking the yields of 6 per cent. and above achievable in the Czech Republic. These investors have been forced to look outside of their home markets, where house prices are either peaking or falling and net rental yields are between 4-5 per cent.

### **3. Hungary**

GDP 2004	\$103.0 billion <sup>(e)</sup>	Inflation 2004	6.5% <sup>(e)</sup>
GDP 2005	\$122.0 billion <sup>(f)</sup>	Inflation 2005	3.8% <sup>(f)</sup>
Eurozone economy	by 2010	Exports growth (2005/2004)	9.3%
Currency	Forint	Imports growth (2005/2004)	7.6%

(e) Estimate

(f) Forecast

### *Economic overview*

Hungary's economy has experienced significant growth despite the fiscal mismanagement that saw its sovereign rating downgraded by the Fitch Agency in January 2005. The outlook for the Hungarian economy remains positive, whilst budget management should ensure that the country remains no less attractive for international financial support and investment than its neighbours.

In the medium to long-term, purchasing power is forecast to catch up slowly with the EU average, subject to continued steady economic growth in both the wider EU and in Hungary itself and in 2004 retail sales growth was more than double the EU average at 5 per cent.

### *National residential trend*

The Hungarian market in new residential developments has experienced continued growth since the construction of the first large developer-based schemes in 2001. In recent years, market demand in Budapest has been geared towards new developments along the main transportation lines and the central districts. Due to a geographically centralized economy, a large proportion of the total residential development in Hungary has taken place in Budapest, resulting in greater demand for new product in the secondary cities. Unit prices have increase steadily since 2001 although at a lower rate than that experienced during the booming years of 1998-2001. Hungary has a well-developed mortgage market, supported by governmental subsidies which reduce interest rates and encourage the acquisition of small and medium size units.

### *International input*

International developers have introduced to the Hungarian market larger developments with greater amenities and more sophisticated marketing, resulting in a more competitive environment. Leading international developers are mostly from Israel, Ireland and Germany.

### **4. Poland**

GDP 2004	\$239.5 billion <sup>(e)</sup>	Inflation 2004	3.5% <sup>(e)</sup>
GDP 2005	\$301.9 billion <sup>(f)</sup>	Inflation 2005	3.2% <sup>(f)</sup>
Eurozone economy	by 2010	Exports growth (2005/2004)	10.0%
Currency	Zloty	Imports growth (2005/2004)	9.0%

(e) Estimate

(f) Forecast

### *Economic overview*

Poland's economy and population is the largest in the Central Europe region and larger than all other new EU accession entrants combined. Fixed investment growth was relatively low at 3.3 per cent. Growth has been restricted by high unemployment (19 per cent.) and the risk averse nature of those private individuals who would otherwise be expected to lead an investment recovery, but have already achieved a sufficiently high degree of relative prosperity.

Despite this, the Warsaw stock exchange index saw a year on year rise of 28 per cent. at the end of 2004 and forecasts suggest that investment will pick up again in 2006. Despite interest rate reductions, Poland continues to be an attractive destination for foreign portfolio investment (primarily targeting government bonds).

#### *National residential trend*

In recent years, residential market growth has been predominantly driven by EU accession (with an expected surge in real estate prices), falling interest rates and the lower costs associated with obtaining mortgages. Demand is forecast to remain strong, with a possible spike in 2007 just before the planned VAT rise for residential units. Supply continues to lag demand due partly to the invalidity of outdated planning documentation and the negative influence which this has had on the number of project start-ups. Further price increases are expected due to the imbalance in supply and demand and also as financing becomes more affordable.

#### *International input*

As with neighbouring countries, many developments are led by foreign developers. Investors from markets including Spain, Ireland, Israel and the UK are buying residential units in bulk during the early stages of project development in the belief that prices will rise steadily over the project construction period.

### **5. Canada**

GDP 2004	\$1,023 billion <sup>(e)</sup>	Inflation 2004	1.9% <sup>(e)</sup>
GDP 2005	\$1,051 billion <sup>(f)</sup>	Inflation 2005	2.3% <sup>(f)</sup>
Exports growth (2005/2004)	1.5%	Imports growth (2005/2004)	-0.4%
Currency	Canadian Dollar		

(e) Estimate

(f) Jan-Oct

#### *Economic overview.*

As an affluent, high-tech industrial society, with a GDP exceeding \$1,000 billion, Canada closely resembles the US in its market-oriented economic system, pattern of production, and affluent living standards. Solid fiscal management has produced a long-term budget surplus that is substantially reducing the national debt. Canada enjoys a substantial trade surplus with its principal trading partner, the United States, which absorbs more than 85 per cent. of Canadian exports.

#### *National residential trend*

The steady price increases of the past three years and the expected rise in mortgage rates will push mortgage carrying costs higher and will cause housing demand to ease gradually. Strong sales in 2005 will continue to foster a seller's market; as a result, the rate of increase in existing home prices will moderate only slightly to 9.0 per cent. However, in 2006, the existing home market is expected to become more balanced, causing price growth to slow to 4.9 per cent. The Canadian residential market is supported by a competitive and sophisticated mortgage market, with long term mortgages at relatively low interest rates being readily available.

#### *International input*

The Canadian economy remains strongly linked to the economy of the US. Quebec in particular is now experiencing greater interest by foreign investors from both the US and Europe.

## PART IV

### Risk Factors

Potential investors should carefully consider the risks described below, in the light of the information in this document and their personal circumstances, before making any decision to invest in the Company. The investment offered in this document may not be suitable for all of its recipients. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. If any of the risks described should actually occur, the Company could be materially affected. In such circumstances, the price of the Company's stock may fall and you could lose all or part of your investment. If you are in any doubt about the action you should take, you should consult a professional advisor authorised under FSMA who specialises in advising on the acquisition of shares and other securities. The risk factors summarised below are not intended to be exhaustive and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Company.

#### Property Risk Factors

The following paragraphs of this Part IV contain what the Directors believe to be some of the principal risk factors involved in an investment in the Company. The nature of the property business and the geographical location in which the Group is aiming to invest means that an investment in the Company is subject to a number of risk factors. Some of these factors apply to the property investment market generally, while others are specific to the Group's activities within that market.

##### 1. *Investment objectives*

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

##### 2. *Economic and political stability*

The success of an investment in the Company depends, in part, on the stability of the political and economic situation in those countries in which the Company chooses to invest.

##### 3. *Property prices*

The ultimate success of an investment in the Company is dependent in part on property prices in the CEE Region remaining stable or rising. There is no guarantee that this will be the case. There is also no guarantee that the Group will be able to sell the properties which it develops, nor is there any guarantee that the Group will be able to sell the properties at profitable prices. The Company's financial performance depends, amongst other things, on the economic situation in the markets in which it operates. There can be no guarantee that the residential and commercial property markets, in these countries, will continue to develop, or develop at the rate expected by the Company.

##### 4. *Acquisition of further land*

The successful growth of the Group's business and profitability will depend on it being able to acquire good sites at competitive prices and develop them efficiently, and thereafter the ability of the Group to sell its developments in a timely fashion and with a good profit margin. This will depend, to a large extent, on the state of the property market in the countries in which the Group chooses to invest. The Group's future development depends on its ability to identify and execute new development projects. Land for such projects can be difficult to obtain for reasons such as competition in the real estate market, the lengthy process of obtaining permits and the limited availability of land with appropriate infrastructure. Furthermore, there is no certainty that the land for the projects currently under negotiations will be finally purchased.

#### 5. *Permits*

There can be no guarantee that any permits, consents or approvals required from third parties in connection with existing or new development projects will be issued or granted to the Group or that any existing permits, consents or approvals will not be withdrawn. A failure by the Group to obtain such permits, consents or approvals may affect its ability to execute or complete existing and/or new development projects.

#### 6. *Environmental risk*

There can be no guarantee that the Group will not have to pay unexpected costs as a condition to the development of land purchased by it, or costs of remedying damages or fines for environmental pollution on real estate developed by the Group.

#### 7. *Key personnel*

The Group's success depends to a significant extent on key personnel. No assurances can be given that the loss of any member of its management team would not have a material adverse effect on the business, financial condition or results of operations of the Group.

#### 8. *Residential trends*

Changing residential trends are likely to emerge within markets as they become more sophisticated and, in some regions, relaxed planning policies may give rise to over-development, thereby affecting the sales potential of competing residential developments. These factors will be considered within the investment strategy implemented by the Group but may not always be able to be anticipated.

#### 9. *Capital expenditure and development risk*

Projects in which the Group is involved require significant capital expenditure for the purchase of the land and during the implementation stage, and often may only generate a return more than twenty four months after the beginning of construction work. Furthermore, changing conditions, unforeseen circumstances, increase in construction costs and financing costs during such lengthy development periods may result in losses or diminished profits from such development projects.

#### 10. *Bank covenants*

The pace and scope of sales in any given project might be insufficient to meet the banks' demands for project finance. As a result, such project would be delayed and the Group would be subjected to additional direct or indirect costs and/or loss of income (including cancellation of sales).

#### 11. *Debt gearing*

Debt gearing is anticipated and debt will be monitored and reviewed by the Group to ensure that liabilities of servicing interest, amortisation and lenders' ratios are adhered to. Where incomes and values fall, debt terms may be breached, giving rise to default provisions requiring remedy by, amongst other possibilities, the investment of further equity.

#### 12. *Undertakings towards partners*

In some projects where the Group partnered with financial institutions, it undertook certain covenants with respect to the timely commencement of its development projects, as well as certain obligations of preferred distributions to its partners in said projects. Such undertakings are likely to increase the adverse affect on the Group's financial results of any delays or diminished sales or profitability in such projects.

#### 13. *Other risk factors*

Other risks include delays in construction work, budget overruns, insolvency of contractors or sub-contractors, labour disputes, shortages of construction materials, accidents or unforeseen technical difficulties, which may or may not be under the Group's control. Occurrence of any of these risks may cause delays, cost overruns, or loss of income and, in some cases, cause the development project to not be completed as well as other direct and indirect costs and losses.

## General Risk Factors

### 1. *Investment in AIM quoted securities, share price volatility and liquidity*

Investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. It is possible that an active trading market may not develop and continue upon completion of the Placing. Even if an active trading market develops, the market price for the Shares may fall below the Placing Price.

As a result of fluctuations in the market price of the Shares, investors may not be able to sell their Shares at or above the Placing Price, or at all. Investors may therefore realise less than, or lose all of, their investment.

The price at which the Shares are quoted and the price which investors may realise for their Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect the quoted property investment sector or quoted companies generally and which are outside the Company's control. These factors could include the performance of the Company, large purchases or sales of the Shares, legislative changes in the insurance and pension fund industry environment, changes in the real-estate industry environment, general economic, political or regulatory conditions, or changes in market sentiment towards the Shares.

The results of the Company may fluctuate significantly as a result of a variety of factors, many of which may be outside the Company's control. Period to period comparisons of the Company's results may not be meaningful and investors should not rely on them as indications of the Company's future performance. The Company's results may fall below the expectations of securities analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Company's operating performance. Any of these events could result in a decline in the market price of the Shares.

### 2. *Restrictions on dividends*

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

### 3. *Taxation*

Any change in the Group's tax status or in taxation legislation in any of the countries in which the Group operates could affect the Group's ability to provide returns to Shareholders. Statements in this document concerning the taxation of investors in Shares are subject to change. The taxation of an investment in the Company depends on the individual circumstances of investors.

### 4. *Economic and political risk*

Factors such as inflation, currency fluctuation, interest rates, recession, supply and demand of capital and industrial disruption or unemployment have an impact on business costs and stock market prices. The Group's operations, business and profitability are affected by these and other economic and political factors, in all of the countries where the Group operates, which are beyond the control of the Company. The Group operates in emerging markets; investors in companies operating in emerging markets should be aware that they are subject to greater risks than more developed markets, including legal, economic and political risks. In addition, adverse political or economic developments in neighbouring countries could have a significant adverse effect on, among other things, GDP, foreign trade and/or the economy in general.

Changes in the laws relating to ownership of property may also adversely affect the performance of the Group.

#### 5. *Shares available for future sale*

The Company is unable to predict whether substantial amounts of Shares will be sold in the open market prior to or following termination of the restrictions as set out in the lock-in arrangements (the terms of which are summarised in paragraph 9.3 of Part VII of this document). Any sales of substantial amounts of Shares in the open market, or the perception that such sales might occur, could materially and adversely affect the market price of the Shares.

#### 6. *Legal system still in development*

The enforcement of foreign judgments in some of the countries in which the Group operates may be difficult. Some of these countries' legal systems are in the process of transformation. The practice of the judicial process is not necessarily similar to a Western European one and parties seeking to rely on the local courts for effective redress in respect of a breach of law or regulation, or in an ownership dispute, may find that it is difficult to obtain.

#### 7. *Currency risk*

Exchange rates of local currencies, in the countries in which the Group operates, against the Euro are an important factor as the loans and credits to be obtained by the Group may be denominated in either Euro or local currencies.

The Company reports its financial statements in Euro. However, the Group's operations are based locally in Canada, Hungary, Bulgaria, the Czech Republic, Germany and Poland, and therefore it receives revenues and incurs costs in Euros and other foreign currencies. The Group's financial results could, therefore, be adversely affected by fluctuations in the exchange rates between such currencies. The Group does not currently engage in hedging or use any other financial arrangement to minimise exchange risk.

#### 8. *Exposure to interest rate cycle*

The Group is expected to finance a substantial part of its project development costs by borrowing. Borrowings will expose the Group to movements in interest rates, and the possibility that if the value of the developments falls, the Group's capital repayment commitments may exceed the capital value of the Company's assets.

#### 9. *Competition*

The identification and structuring of property-related transactions is highly competitive. Competition for appropriate investment opportunities may limit significantly the number and types of opportunities available to the Company and adversely affect the terms upon which investments can be made.

#### 10. *Limited operating history*

The Group has only a limited operating history upon which its performance and prospects may be evaluated and it faces the risks frequently encountered by developing companies. These risks include the potential inability to retain key personnel, as well as uncertainty as to which areas to target for growth and expansion. In addition, there can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on an investment in the Company.

#### 11. *Control by significant shareholder*

Jacob Engel, the chairman of the Board, is deemed to have indirect control over the Company, through various companies. Therefore Mr. Engel may be able to exert influence over the Company's management and policies.

#### 12. *Additional requirements for cash*

Although the Directors believe that together with the proceeds of the Placing, Engel East Europe has sufficient working capital for its current requirements, it may be necessary for the Group to raise further funds in the future, which may be by way of the issue of Shares on a non pre-emptive basis which would result in a dilution of the interests of shareholders at that time of such issue. There can be no guarantee that such a further fundraising or any type of fundraising would be successful and the development and growth of the business of the Group may be constrained if it is not successful in such fundraising or if funds are raised on unfavourable terms.

### 13. *Restitution risks and claims*

The regime of immovable property in many Eastern and Central European countries has been greatly influenced by restitution laws. The notion behind restitution laws is to reinstate title to real estate expropriated during the communist era to the former owners or their successors or, if such reinstatement is impossible, to provide fair compensation to such owners/successors. Many of these countries, including the countries in the CEE Region, have adopted restitution laws providing for in-kind restitution of expropriated real estate, and methods for compensating owners if in-kind restitution is not possible. Although the Group usually reviews restitution issues before acquiring a plot of land, the results of such reviews are not always conclusive, and restitution claims may be raised by claimants claiming to be former owners of such plots of land.

### 14. *Forward-looking statements*

Certain statements contained in this document may constitute forward-looking statements. Such statements include, amongst other things, statements regarding the Company's or management's beliefs, expectations, estimations, plans, anticipations and similar statements. Any such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this document and there can be no assurance that the results and events contemplated by such forward-looking statements will, in fact, occur. The Company and the Directors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein, or to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, save as required to comply with any legal or regulatory obligations (including the AIM Rules).

**Investors should consider carefully whether investment in the Company is suitable for them, in view of the risk factors outlined above and the information contained in this document, their personal circumstances and the financial resources available to them.**



## PART V

### Historic Financial Information

#### 1. Engel East Europe N.V. (formerly Engel General Dutch 2000 B.V.)

The consolidated financial information for the Company and its subsidiaries is set out below. The directors of the Company are responsible for the preparation of the historic consolidated financial information and its presentation in accordance with International Financial Reporting Standards (“IFRS”) and the accounting policies in Note 2. The historic consolidated financial information for the years ended 31 December 2004, 2003 and 2002 and for the six month period ended 30 June 2005 has been audited and is also the subject of the Accountant’s Report set out in Part V.2 of this Admission Document. The historic consolidated financial information for the period ended 30 June 2004 is unaudited and is derived from management information. The historic financial information does not include either the Canadian or German operations which were acquired by the Company in November 2005.

#### Consolidated Balance Sheet

		<i>31 December</i>			<i>30 June</i>
	<i>Note</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>TEUR</i>	<i>TEUR</i>	<i>TEUR</i>	<i>TEUR</i>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	3	115	4,610	4,638	3,333
Restricted bank deposits	4	1,983	5,070	1,827	3,943
Trade accounts receivable	5	1,164	236	262	206
Other accounts receivable	6	395	696	522	770
Amounts due from related parties and others	7	—	—	771	473
Inventories of housing units	8	9,153	21,603	16,690	17,560
Building held for sale	9	—	2,270	—	—
		<u>12,810</u>	<u>34,485</u>	<u>24,710</u>	<u>26,285</u>
<b>Non-current assets</b>					
Property and equipment	10	48	50	29	60
Deferred tax assets	11	—	268	709	587
Investment in associate	13	—	227	286	304
		<u>48</u>	<u>545</u>	<u>1,024</u>	<u>951</u>
<b>Total assets</b>		<u><u>12,858</u></u>	<u><u>35,030</u></u>	<u><u>25,734</u></u>	<u><u>27,236</u></u>
<b>Liabilities and Equity</b>					
<b>Current liabilities</b>					
Loans from banks	14	3,134	10,937	5,029	8,695
Amounts due to related parties and others	15	6,142	3,227	4,099	8,335
Trade accounts payable	16	677	4,267	935	878
Other accounts payable	17	2,023	12,535	12,662	4,968
Bridge loan	12	—	4,000	—	—
<b>Total liabilities</b>		<u>11,976</u>	<u>34,966</u>	<u>22,725</u>	<u>22,876</u>
<b>Net assets</b>		<u><u>882</u></u>	<u><u>64</u></u>	<u><u>3,009</u></u>	<u><u>4,360</u></u>
<b>Equity</b>					
Share capital	18	18	20	20	20
Retained earnings/(losses)		606	(152)	2,641	4,187
Accumulated translation adjustments		—	(33)	(76)	20
<b>Equity attributable to equity holders of the parent</b>		<u>624</u>	<u>(165)</u>	<u>2,585</u>	<u>4,227</u>
<b>Minority interest</b>		<u>258</u>	<u>229</u>	<u>424</u>	<u>133</u>
<b>Total equity</b>		<u><u>882</u></u>	<u><u>64</u></u>	<u><u>3,009</u></u>	<u><u>4,360</u></u>
<b>Total liabilities and equity</b>		<u><u>12,858</u></u>	<u><u>35,030</u></u>	<u><u>25,734</u></u>	<u><u>27,236</u></u>

## Consolidated income statement

	Note	For the year ended 31 December			For the six months ended 30 June	
		2002	2003	2004	2005	2004 <i>Unaudited</i>
		TEUR	TEUR	TEUR	TEUR	TEUR
Revenues	19	3,102	2,051	7,752	9,390	7,093
Cost of revenues	20	(2,092)	(1,939)	(5,880)	(7,149)	(5,450)
<b>Gross profit</b>		<u>1,010</u>	<u>112</u>	<u>1,872</u>	<u>2,241</u>	<u>1,643</u>
Other operating income	21	—	—	3,830	56	3,830
Other operating expenses	21	—	(17)	(1,197)	—	(1,197)
Selling, general and administrative expenses	22	(361)	(822)	(1,277)	(431)	(850)
<b>Operating profit/(loss)</b>		<u>649</u>	<u>(727)</u>	<u>3,228</u>	<u>1,866</u>	<u>3,426</u>
Finance income	23	179	517	657	467	432
Finance expenses	23	(342)	(627)	(938)	(503)	(363)
<b>Profit/(loss) before tax</b>		<u>486</u>	<u>(837)</u>	<u>2,947</u>	<u>1,830</u>	<u>3,495</u>
Income taxes	24	—	(91)	24	(330)	(202)
<b>Net profit/(loss) after tax</b>		<u>486</u>	<u>(928)</u>	<u>2,971</u>	<u>1,500</u>	<u>3,293</u>
Share in loss of associate		—	(3)	(11)	(23)	(5)
<b>Profit/(loss) for the period</b>		<u><u>486</u></u>	<u><u>(931)</u></u>	<u><u>2,960</u></u>	<u><u>1,477</u></u>	<u><u>3,288</u></u>
<b>Attributable to:</b>						
Equity holders of the parent		228	(758)	2,793	1,546	2,948
Minority interest		258	(173)	167	(69)	340
		<u>486</u>	<u>(931)</u>	<u>2,960</u>	<u>1,477</u>	<u>3,288</u>
Earnings/(loss) per share (Euro)	25	<u><u>0.004</u></u>	<u><u>(0.013)</u></u>	<u><u>0.047</u></u>	<u><u>0.026</u></u>	<u><u>0.049</u></u>

## Consolidated statement of changes in shareholders' equity

	<i>Share capital TEUR</i>	<i>Accumulated translation adjustment TEUR</i>	<i>Retained earnings TEUR</i>	<i>Total TEUR</i>
<b>Balance at 1 January 2002</b>	18	—	378	396
Profit for the year	—	—	228	228
<b>Balance at 31 December 2002</b>	18	—	606	624
Issue of share capital	2	—	—	2
Foreign currency translation adjustment	—	(33)	—	(33)
Loss for the year	—	—	(758)	(758)
<b>Balance at 31 December 2003</b>	20	(33)	(152)	(165)
Foreign currency translation adjustment	—	(43)	—	(43)
Profit for the year	—	—	2,793	2,793
<b>Balance at 31 December 2004</b>	20	(76)	2,641	2,585
Foreign currency translation adjustment	—	96	—	96
Profit for the period	—	—	1,546	1,546
<b>Balance at 30 June 2005</b>	20	20	4,187	4,227

## Consolidated statement of cash flows

	<i>For the year ended 31 December</i>			<i>For the six months ended 30 June</i>	
	2002	2003	2004	2005	2004 <i>Unaudited</i>
	TEUR	TEUR	TEUR	TEUR	TEUR
<b>Cash (used in)/from operating activities</b>					
Net profit/(loss) for the period	486	(931)	2,960	1,477	3,288
Adjustment necessary to reflect cash flows from operating activities:					
Depreciation	34	31	12	3	7
Finance expenses	(33)	(260)	(447)	(147)	(79)
Income taxes	—	380	643	(73)	814
Capital loss on sale of fixed assets	—	—	—	6	—
Company's share in losses of associate	—	3	11	23	5
Capital gain on sale of investment in subsidiary	—	79	(3,830)	—	(3,830)
Decrease/(increase) in inventory	2,811	(12,508)	(3,462)	(354)	(853)
Deferred taxes	—	11	(54)	(30)	(55)
(Decrease)/increase in trade accounts receivable	(1,164)	971	(74)	64	65
Increase/(decrease) in other accounts receivable	198	(431)	(531)	(130)	(1,446)
Increase/(decrease) in trade accounts payable	624	3,584	(2,433)	(86)	(3,068)
(Decrease)/increase in other accounts payable	(3,601)	10,379	5,809	(7,753)	4,680
<b>Cash (used in)/from operations</b>					
Interest received	144	311	521	294	279
Interest paid	(17)	(201)	(144)	(75)	(148)
Income taxes paid	(12)	(254)	(403)	(260)	(339)
<b>Net cash (used in)/from operating activities</b>	<u>(530)</u>	<u>1,164</u>	<u>(1,422)</u>	<u>(7,041)</u>	<u>(680)</u>
<b>Cash (used in)/from investing activities</b>					
Purchase of property and equipment	(62)	(33)	(15)	(34)	(18)
Proceeds from sale of property and equipment	—	—	—	6	—
Sale/(purchase) of building held for sale	—	(2,270)	2,270	—	2,270
Loan granted to affiliate company	—	—	(137)	(11)	(2)
Short term loans (granted to) repaid by related parties	—	(230)	(915)	322	(352)
Restricted cash	(1,945)	(3,071)	883	(2,060)	(2,813)
Proceeds from selling of investment in subsidiary, net (see Note 30)	—	—	(755)	—	(755)
<b>Net cash (used in)/from investing activities</b>	<u>(2,007)</u>	<u>(5,604)</u>	<u>1,331</u>	<u>(1,777)</u>	<u>(1,670)</u>
<b>Cash (used in)/from financing activities</b>					
Issue of share capital	—	2	—	—	—
Short term loans (repaid to) related parties, net	—	(2,867)	—	—	—
Short term loans from/(repaid to) banks, net	478	7,803	(1,612)	3,625	(2,023)
Short term loans (repaid) to related parties, net	2,143	—	1,734	4,109	681
Bridge loan received from related parties	—	4,000	—	—	—
Dividend paid to minority shareholders	—	—	—	(229)	—
<b>Net cash (used in)/from financing activities</b>	<u>2,621</u>	<u>8,938</u>	<u>122</u>	<u>7,505</u>	<u>(1,342)</u>
<b>Increase/(decrease) in cash and cash equivalents during the period</b>	84	4,498	31	(1,313)	(3,692)
Effect of exchange rate changes on cash	—	(3)	(3)	8	(3)
<b>Cash and cash equivalents at the beginning of the period</b>	31	115	4,610	4,638	4,610
<b>Cash and cash equivalents at the end of the period</b>	<u>115</u>	<u>4,610</u>	<u>4,638</u>	<u>3,333</u>	<u>915</u>

## Note 1 – Principal activities

Engel East Europe N.V. was incorporated in the Netherlands on 6 December 2000, as a holding company. The Company's registered office is at Rapenburgerstraat 204, 1011 MN, Amsterdam, The Netherlands. The aim of the Company is establishing subsidiaries mainly in Central and Eastern Europe for the purpose of purchase, establishment and sale of real estate assets.

## Note 2 – Summary of significant accounting policies

### (A) *Basis of accounting*

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial information has been prepared on the historical cost basis. The principal accounting policies are set out below.

### (B) *Adoption of new and revised International Financial Reporting Standards*

In the current period, the Group has adopted all of the new and revised IFRS and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

### (C) *Reporting currency*

The consolidated financial information is prepared in EURO and is presented in thousands of EURO ("TEUR").

### (D) *Basis of consolidation*

The consolidated financial information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair value of the assets and any liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

Entities, which are jointly controlled with another party or parties ("joint ventures"), are accounted for using the proportional consolidation method of accounting. The interest of each joint venture party varies according to the rate of return achieved by the other joint venture party and accordingly at each balance sheet date the Directors make an estimate of their economic interest and account for each line item accordingly. In any period where there is a change of economic interest or a change in estimate of economic interest, then the corresponding adjustment is taken to the income statement.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

### (E) *Cash and cash equivalents*

Cash and cash equivalents consist of deposits in banks and short-term investments (primarily time deposits and certificates of deposit) with original maturities of three months or less.

(F) *Restricted bank deposits*

Restricted bank deposits consist of deposits in banks that the Group pledged to secure banking facilities for the Group and to which the Group does not have access.

(G) *Inventories of housing units*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs, subcontracting and those direct overheads which have been incurred in bringing the inventory to their present location and costs. Net realisable value represents the estimated selling price, as evaluated by the Directors based on advice from the Company's engineers, less all estimated costs of completion and direct selling costs.

In the case where a loss from a project is anticipated, an accrual for the full amount of the anticipated loss is made in the period the anticipated loss has occurred, based on the Directors best estimate of the anticipated loss.

(H) *Property and equipment*

Leasehold improvements, machinery, office equipment, computers and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful economic lives, using the straight-line method, on the following bases:

	%
Leasehold improvements	Over the lease term
Office equipment and computers	6.5-33
Motor vehicles	15

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

(I) *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements 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 differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will 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 equity, in which case the deferred tax is also dealt within equity.

(J) *Revenue recognition*

Revenue from housing units is recognised when the risks and rewards of ownership have been transferred to the buyer and provided that the Company has no further substantial acts to complete under the contract.

Other revenues, including management fee income, are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes.

(K) *Investment in associates*

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the assets transferred in which case appropriate provision is made for impairment.

(L) *Trade receivables*

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(M) *Foreign currencies*

Transactions in foreign currencies other than Euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are de-nominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Gains and loss arising on retranslation are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated using the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

The financial statements of foreign subsidiaries, associates and jointly controlled entities that report in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the balance sheet date before they are translated into Euros.

(N) *Trade payables*

Trade payables are not interest bearing and are stated at their nominal value.

(O) *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(P) *Provisions*

Provision for warranty costs are recognised at the date of sale of housing units, at the directors' best estimate of the expenditure required to settle the Group's liability. Such estimates take into consideration warranties given to the Group by subcontractors.

### Note 3 – Cash and cash equivalents

	31 December			30 June
	2002	2003	2004	2005
	TEUR	TEUR	TEUR	TEUR
Petty cash	30	16	15	42
Bank deposit – in Hungarian Forint/Czech Crown	31	4,113	3,990	1,928
Bank deposit – in Euro	23	52	597	677
Bank deposit – in U.S. Dollar	—	277	1	291
Bank deposit – in other currencies	31	152	35	395
Total	<u>115</u>	<u>4,610</u>	<u>4,638</u>	<u>3,333</u>

### Note 4 – Restricted bank deposits

	31 December			30 June
	2002	2003	2004	2005
	TEUR	TEUR	TEUR	TEUR
In Hungarian Forint	1,258	4,668	1,796	3,754
In Czech Crown	725	402	—	—
In Polish Zloty	—	—	31	189
Total	<u>1,983</u>	<u>5,070</u>	<u>1,827</u>	<u>3,943</u>

The Group pledged the bank deposits to secure banking facilities granted to the Group.

### Note 5 – Trade accounts receivable

Trade accounts receivables at the balance sheet date comprise amounts receivable from the sale of housing units.

The directors consider that the carrying amount of trade accounts receivables approximates their fair value.

### Note 6 – Other accounts receivable

	31 December			30 June
	2002	2003	2004	2005
	TEUR	TEUR	TEUR	TEUR
Advances to suppliers	26	59	72	66
Tax authorities	225	310	107	451
Interest receivables	15	161	108	35
Prepaid expenses	11	33	174	190
Other	118	133	61	28
Total	<u>395</u>	<u>696</u>	<u>522</u>	<u>770</u>

### Note 7 – Amounts due from related parties and others

	31 December			30 June
	2002	2003	2004	2005
	TEUR	TEUR	TEUR	TEUR
<b>Granted to:</b>				
Companies under common control	—	—	771	76
Arces	—	—	—	397
Total	<u>—</u>	<u>—</u>	<u>771</u>	<u>473</u>

The loans bear no interest and no repayment date has been set.



## Note 8 – Inventories of housing units

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Housing units held for sale	1,611	386	309	742
Housing units under construction	7,542	21,217	16,381	16,818
<b>Total</b>	<b>9,153</b>	<b>21,603</b>	<b>16,690</b>	<b>17,560</b>

The group has pledged inventories having a carrying amount of TEUR 12,221 to secure banking facilities granted to the group.

## Note 9 – Building held for sale

The building was purchased in December 2003 from a company under common control for TEUR 2,270. During 2004 it was sold to a third party for net consideration of TEUR 2,270 after making a payment of TEUR 473 to a company under common control.

## Note 10 – Property and Equipment

	Vehicles TEUR	Furniture, office equipment and other assets TEUR	Total TEUR
<b>Cost</b>			
<b>Balance at 1 January 2002</b>	—	20	20
Additions	—	62	62
<b>Balance at 31 December 2002</b>	—	82	82
Additions	19	14	33
<b>Balance at 31 December 2003</b>	19	96	115
Additions	—	15	15
Disposal of subsidiary	—	(32)	(32)
<b>Balance at 31 December 2004</b>	19	79	98
Additions	—	34	34
<b>Balance at 30 June 2005</b>	19	113	132
<b>Accumulated depreciation</b>			
<b>Balance at 1 January 2002</b>	—	—	—
Depreciation for the year	—	34	34
<b>Balance at 31 December 2002</b>	—	34	34
Depreciation for the year	2	29	31
<b>Balance at 31 December 2003</b>	2	63	65
Disposal of subsidiary	—	(8)	(8)
Depreciation for the year	2	10	12
<b>Balance at 31 December 2004</b>	4	65	69
Depreciation for the period	1	2	3
<b>Balance at 30 June 2005</b>	5	67	72
<b>Net book value at:</b>			
<b>30 June 2005</b>	14	46	60
<b>31 December 2004</b>	15	14	29
<b>31 December 2003</b>	17	33	50
<b>31 December 2002</b>	—	48	48

## Note 11 – Deferred tax assets

The following are the major deferred tax assets and liabilities recognised by the group, and the movements thereon, during the current and prior reporting periods.

	<i>Revenue recognition TEUR</i>	<i>Tax losses TEUR</i>	<i>Total TEUR</i>
<b>1 At January 2003</b>	—	—	—
(Credit)/charge to profit or loss for the year	(11)	279	268
<b>At 1 January 2004</b>	(11)	279	268
Charge to profit or loss for the year	184	343	527
Disposal of subsidiary	(51)	(35)	(86)
<b>At 1 January 2005</b>	122	587	709
Charge/(credit) to profit or loss for the period	148	(270)	(122)
<b>At 30 June 2005</b>	<u>270</u>	<u>317</u>	<u>587</u>

Certain deferred tax assets and liabilities have been offset where they arise in the same jurisdiction and in accordance with the group’s accounting policy.

## Note 12 – Subsidiaries and joint ventures

At 30 June 2005, the Company holds the following companies:

- A. Arces International B.V. (“Arces”) – holding company, Breda, The Netherlands. Up to 31 December 2003, the Company owned all of the shares in Arces. On 14 December 2003, Arces signed a subscription and investment agreement with the Heitman Fund to issue 40 ordinary class B shares. According to the agreement, the new investor granted to Arces a TEUR 4,000 equity bridge loan and on 12 February 2004, Arces issued the shares in consideration for the bridge loan amount plus additional TEUR 3,750. Subsequent to the share issuance, the new investor holds 50 per cent. of Arces’ shares, see also note 27a.

Arces holds the following subsidiaries:

- (a) Engel Park Kft. (“Park”) – a wholly owned subsidiary – built residential flats in Budapest, Hungary.
- (b) Engel Sun Palace Kft. (formerly “Engel Depo 2001 Kft.”) (“Sun Palace”) – a wholly owned subsidiary – builds residential flats in Budapest, Hungary. See also note 26c.
- (c) Engel Projekt Kft. (“Projekt”) – a wholly owned subsidiary – plans to build residential flats in Győr, Hungary.
- (d) Palace Engel Dejvice s.r.o. (“Dejvice”) – 64 per cent. interest in share capital – plans to build residential flats in Prague, Czech Republic.
- (e) Palace Engel Estate s.r.o. (“Vokovice”) – 64 per cent. interest in share capital – plans to build residential flats in Prague, Czech Republic.
- (f) Palace Engel I S.p. Z.o.o. (“Zabky”) – a wholly owned subsidiary – builds flats in Warsaw, Poland.
- (g) Engel Apartmety Emilii Plater S.p. Z.o.o. (“Emilii”) – a wholly owned subsidiary – plans to build residential flats in Warsaw, Poland.

The following amounts are included in the Group’s financial information as a result of the proportionate consolidation of Arces:

	<i>31 December 2004 TEUR</i>	<i>30 June 2005 TEUR</i>
Current assets	<u>22,312</u>	<u>21,653</u>
Non-current assets	<u>910</u>	<u>673</u>
Current liabilities	<u>(20,654)</u>	<u>(17,799)</u>

	<i>For the year ended 31 December 2004</i>	<i>For the six months ended 30 June 2005</i>	<i>2004 Unaudited</i>
Income	<u>520</u>	<u>9,278</u>	<u>430</u>
Expenses	<u>(1,479)</u>	<u>(7,346)</u>	<u>(1,508)</u>

- (B) Palace Engel s.r.o. (“Prokopsky”) – 64 per cent. interest in the share capital – built residential flats in Prague, Czech Republic.
- (C) Palace Engel Development s.r.o. (“Barandov”) – 64 per cent. interest in the share capital – built residential flats in Prague, Czech Republic.
- (D) Engel Management s.r.o. (“Management”) – a wholly owned subsidiary – management company, Czech Republic.
- (E) Burlington Hungary Kft. (“Burlington”) – a wholly owned subsidiary – management company, Hungary.
- (F) Turlington Hungary Kft. (“Turlington”) – a wholly owned subsidiary – management company, Hungary.
- (G) Engel Management S.p. Z.o.o – wholly owned by Burlington – management company, Poland.
- (H) Puribul Ltd. (“Puribul”) – a wholly owned subsidiary – plans to build residential units in Sofia, Bulgaria.
- (I) Nisim Ltd. (“Nissim”) – a wholly owned subsidiary – plans to build residential units in Sofia, Bulgaria.
- (J) Arces Poland BV. (“Arces Poland”) – a wholly owned subsidiary – holding company – holds the wholly owned subsidiary company: E.G. Company Ltd. (“E.G”) – plans to build residential units in Sofia, Bulgaria.

#### Note 13 – Investment in associate

Arces owns 40 per cent. of the share capital of Palace Engel Vrsovice s.r.o. (“Vrsovice”). The additional 45 per cent. and 15 per cent. are held by former managers of the Engel Group and Clair Satchi, the Company CEO. Vrsovice, through its wholly owned subsidiary (Agentura Novy Domov 2000, spol s.r.o), built residential flats in Prague, Czech Republic.

(b) *Composition:*

	<i>2002 TEUR</i>	<i>31 December 2003 TEUR</i>	<i>2004 TEUR</i>	<i>30 June 2005 TEUR</i>
Cost of investment	—	2	2	2
Share of losses	—	(3)	(14)	(37)
	—	(1)	(12)	(35)
Long term loan – in Czech Crown	—	228	298	339
<b>Total</b>	<u>—</u>	<u>227</u>	<u>286</u>	<u>304</u>

The interest rate on the loan to Vrsovice is 4.57 per cent. as at 30 June 2005.

(c) Summarised financial information in respect of the Group's associate is set out below:

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Total assets	—	1,178	5,438	4,577
Total liabilities	—	(1,178)	(5,497)	(4,755)
Net assets	—	—	(59)	(178)
Group's share of associate net assets	—	—	(12)	(36)

	For the year ended 31 December			For the six months ended
	2002 TEUR	2003 TEUR	2004 TEUR	30 June 2005 TEUR
Loss for the period	—	6	55	118
Group's share of associate loss for the period	—	3	11	23

#### Note 14 – Loans from banks

	31 December			30 June	Interest rate 30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2005 (%)
In Czech Crown	1,448	4,391	1,609	2,111	4.57
In Hungarian Forint	1,686	6,546	3,420	1,213	5.50
In Hungarian Forint	—	—	—	3,649	6.91
In Hungarian Forint	—	—	—	1,085	Euribor +2.35
In Polish Zloty	—	—	—	637	Wibor +2.25
<b>Total</b>	<b>3,134</b>	<b>10,937</b>	<b>5,029</b>	<b>8,695</b>	

The Group finances its projects primarily with commercial bank lines of credit. The loans will be repaid out of the proceeds of the sale of housing units. As the inventories of housing units are classified as current assets the loans to banks are classified as current liabilities, see also note 26b.

#### Note 15 – Amounts due to related parties and others

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
<b>Received from:</b>				
Heitman Fund <sup>(1)</sup>	—	—	2,449	2,781
Companies under common control	4,870	1,275	—	—
Minority shareholders of subsidiaries <sup>(2)</sup>	1,053	848	365	485
Parent company <sup>(3)</sup>	219	1,104	1,285	5,069
<b>Total</b>	<b>6,142</b>	<b>3,227</b>	<b>4,099</b>	<b>8,335</b>

(1) See note 26d for terms

(2) Interest is charged at PRIBOR+2.5 per cent.

(3) The loan bears no interest and there are no fixed repayment dates.

## Note 16 – Trade accounts payable

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Companies under common control	—	2,466	—	—
Other	677	1,801	935	878
<b>Total</b>	<u>677</u>	<u>4,267</u>	<u>935</u>	<u>878</u>

The directors consider that the carrying amount of trade payables approximates to their fair value.

## Note 17 – Other accounts payable

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Advances from customers	1,744	11,898	11,505	3,992
Tax authorities	37	146	510	136
Accrued expenses	239	387	621	815
Other	3	104	26	25
<b>Total</b>	<u>2,023</u>	<u>12,535</u>	<u>12,662</u>	<u>4,968</u>

## Note 18 – Share capital

	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Authorised:				
900 ordinary shares of par value EUR100 each	<u>90</u>	<u>90</u>	<u>90</u>	<u>90</u>
	31 December			30 June
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR
Issued and fully paid:				
At the beginning of the period	18	18	20	20
Issued for cash	<u>—</u>	<u>2</u>	<u>—</u>	<u>—</u>
At the end of the period	<u>18</u>	<u>20</u>	<u>20</u>	<u>20</u>

The company has one class of ordinary shares which carry no right to fixed income.

On 9 December 2005 the Company split each EUR100 share into 10,000 EUR0.01 shares and converted the issued share capital into 2,000,000 shares.

## Note 19 – Revenues

	For the year ended 31 December			For the six month ended 30 June	
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2004 TEUR <i>Unaudited</i>
Sale of housing units	3,065	1,777	7,337	9,156	6,830
Management fees	—	54	299	228	188
Other	37	220	116	6	75
<b>Total</b>	<u>3,102</u>	<u>2,051</u>	<u>7,752</u>	<u>9,390</u>	<u>7,093</u>

## Note 20 – Cost of revenues

	<i>For the year ended</i>			<i>For the six</i>	
	<i>31 December</i>			<i>month ended</i>	
	2002	2003	2004	2005	2004
	TEUR	TEUR	TEUR	TEUR	TEUR
					<i>Unaudited</i>
Cost of housing units	2,092	1,823	5,726	7,086	5,098
Management fees	—	114	74	—	305
Other	—	2	80	63	47
<b>Total</b>	<b>2,092</b>	<b>1,939</b>	<b>5,880</b>	<b>7,149</b>	<b>5,450</b>

## Note 21 – Other operating income and expenses

	<i>For the year ended</i>			<i>For the six</i>	
	<i>31 December</i>			<i>month ended</i>	
	2002	2003	2004	2005	2004
	TEUR	TEUR	TEUR	TEUR	TEUR
					<i>Unaudited</i>
Capital gain from issuance of subsidiary's shares	—	—	3,830	—	3,830
Other	—	—	—	56	—
	—	—	3,830	56	3,830
Other operating expense					
Bonus paid <sup>(*)</sup>	—	—	1,000	—	1,000
Other	—	17	197	—	197
	—	17	1,197	—	1,197

(\*) Paid to Engel General Developers upon completion of the share issuance in Arces, as described in note 26d.

## Note 22 – Selling, general and administrative expenses

	<i>For the year ended</i>			<i>For the six</i>	
	<i>31 December</i>			<i>month ended</i>	
	2002	2003	2004	2005	2004
	TEUR	TEUR	TEUR	TEUR	TEUR
					<i>Unaudited</i>
Selling	128	211	449	92	383
Professional services	37	466	279	188	210
Other	196	145	549	151	257
<b>Total</b>	<b>361</b>	<b>822</b>	<b>1,277</b>	<b>431</b>	<b>850</b>

## Note 23 – Finance income and expenses

	<i>For the year ended 31 December</i>			<i>For the six month ended 30 June</i>	
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2004 TEUR <i>Unaudited</i>
<b>Finance income</b>					
Interest received from bank deposits	33	457	468	222	227
Interest on loans from related parties	—	—	—	4	—
Foreign exchange differences on monetary items	146	—	146	241	111
Other	—	60	43	—	94
<b>Total</b>	<u>179</u>	<u>517</u>	<u>657</u>	<u>467</u>	<u>432</u>
<b>Finance expenses</b>					
Interest paid on bank loans	169	463	372	283	180
Interest on loans from related parties	68	—	106	—	183
Interest on loans from others	3	34	460	220	—
Foreign exchange differences on monetary items	—	130	—	—	—
Other	102	—	—	—	—
<b>Total</b>	<u>342</u>	<u>627</u>	<u>938</u>	<u>503</u>	<u>363</u>

## Note 24 – Income taxes

	<i>For the year ended 31 December</i>			<i>For the six month ended 30 June</i>	
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2004 TEUR <i>Unaudited</i>
Current tax	—	119	493	292	650
Deferred tax	—	(268)	(527)	122	(448)
Prior year's taxes	—	240	10	(84)	—
<b>Total</b>	<u>—</u>	<u>91</u>	<u>(24)</u>	<u>330</u>	<u>202</u>

## Reconciliation of statutory to effective tax rate:

	For the year ended 31 December			For the six month ended 30 June	
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2004 TEUR <i>Unaudited</i>
Statutory income tax rate	<u>34.5%</u>	<u>34.5%</u>	<u>34.5%</u>	<u>31.5%</u>	<u>34.5%</u>
Profit/(loss) before taxes	<u>486</u>	<u>(837)</u>	<u>2,947</u>	<u>1,830</u>	<u>3,495</u>
Tax at the statutory income tax rate	168	(289)	1,017	576	1,205
Changes in tax burden as a result of:					
Differences in statutory tax rates of subsidiaries	8	47	29	(359)	(18)
Deferred taxes not provided for losses and other timing differences, net	(171)	66	(160)	(37)	638
Non taxable income	—	6	(922)	(18)	(922)
Prior years taxes	—	240	10	(84)	—
Other differences, net	<u>(5)</u>	<u>21</u>	<u>2</u>	<u>252</u>	<u>(701)</u>
Income tax	<u>—</u>	<u>91</u>	<u>(24)</u>	<u>330</u>	<u>202</u>

## Note 25 – Earnings/(loss) per share

The calculating of the basic earning per share attributable to the ordinary equity holders of the parent is based on the following data:

	For the year ended 31 December			For the six month ended 30 June	
	2002 TEUR	2003 TEUR	2004 TEUR	2005 TEUR	2004 TEUR <i>Unaudited</i>
<b>Earnings/(loss)</b>					
Earnings/(loss) for the purposes of basic and diluted earnings per share (profit/(loss) for the period attributable to equity holders of the parent)	<u>228</u>	<u>(758)</u>	<u>2,793</u>	<u>1,546</u>	<u>2,948</u>
<b>Number of shares (in thousands)</b>					
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<u>59,800</u>	<u>59,943</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>

The denominators for the purposes of calculating basic earnings per share have been adjusted to reflect the stock split and bonus issue in November 2005 (see note 18).

There have been no diluted earnings per share.

## Note 26 – Contingent liabilities, contingent assets and commitments

### (a) Warranties and guarantees

Some of the Company's subsidiaries are engaged in the construction and sale of residential housing units. The subsidiaries provide their customers with performance and quality guarantees in accordance with the Czech, Polish or Hungarian Civil code. The subsidiaries



require from the sub-contractors building the housing units performance and quality guarantees in the form of a bank guarantee and of funds held in retention. No amounts have been accrued for warranty claims in the period.

(b) *Liens regarding bank finance agreements*

In order to secure loans which were granted for financing of the projects, the Company has granted banks with regard to certain subsidiaries: first ranking liens on all their assets, including rights in land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party (including establishment contracts and lease, operating and management agreements) and bank guarantees for certain amount. It was also agreed that the loans that those companies received from their shareholders and/or every existing or future right of the holders of the rights in those companies will be subordinated in relation to the loans received from the banks. In addition, payment to the shareholders (including a dividend payment and except for amounts in respect of project management) will not be allowed, until the bank loan has been repaid (see also Note 14).

(c) *Engel Sun Palace Kft. – EG-Palace Kft.*

According to agreements between EG-Palace Kft. (a Group company), Sun Palace (a consolidated company – see also note 12) and Engel General Developers (the parent company), EG-Palace Kft. grants a non-exclusive possession on its property to Sun Palace for the purpose of development and construction of a housing project on the land. In return, EG-Palace Kft. received TEUR 4,000 on April 1, 2004, upon selling to Sun Palace part of the land and will receive additional TEUR 4,000 at later stage for the second part of the land.

(d) *Joint venture agreement*

In December 2003, the Company, the parent company Engel General Developers and the Company's subsidiary, Arces International B.V. ("Arces"), entered into a subscription and investment agreement with the Heitman Fund, whereby the Heitman Fund acquired shares of Arces constituting 50 per cent. of the outstanding share capital of Arces, for an aggregate amount of EUR7.75 million, of which EUR2 million was paid to Engel General Developers as a premium, and the balance of EUR5.75 million was repaid to it on account of loans it provided to Arces prior to the investment by the Heitman Fund. In addition, the parties entered into a shareholders agreement with regard to their relationship as shareholders of Arces. The Heitman Fund will invest additional amounts, on a quarterly basis, in accordance with the capital requirements of Arces for the development projects carried out by its subsidiaries in the CEE Region, up to an additional amount of EUR7.75 million (the "Preferred Investment"), subject to certain objective conditions relating to each project for which such funds are designated, such as obtaining external financing for the construction of such project.

In addition, it was agreed that should Arces require additional funding, such funding shall be provided by Engel General Developers and the Heitman Fund, in equal parts, by way of subscription for additional shares or by way of shareholders loans; provided however, that the Heitman Fund's total funding of Arces shall not exceed EUR18 million.

The agreements provide for certain compensation to which the Heitman Fund shall be entitled in certain events, such as in the event of certain delays in the commencement of any of the projects of Arces and its subsidiaries presented to the Heitman Fund prior to the agreement, or in the event that the number of apartments in such projects decreases substantially. In addition, the Heitman Fund may demand that a delayed project be sold, subject to a right of first refusal granted to Engel General Developers. In addition, subject to certain conditions Engel General Developers undertook to finance any development costs of projects that exceed the budget presented to the Heitman Fund. As of the date of this admission document, no demands for compensation or for sale of any projects were received from the Heitman Fund.

Based on the agreements with the Heitman Fund, subsidiaries of the Company are managing the projects of Arces' subsidiaries in return for management fees equal to 5 per cent. of the planning and construction costs of these projects.

The Heitman Fund has a preference to receive proceeds distributed by Arces until it is repaid an amount equal to an internal return rate of 15 per cent. on the Preferred Investment. Thereafter, the remaining amounts shall be used for repayment of any priority loans made by any of the parties, if any, and for distribution among the Heitman Fund and the Company, on a progressive basis, in a manner that the Company's share in such distribution can increase from 50 per cent. to 70 per cent., depending upon the increase in the rate of return achieved by the Heitman Fund.

- (e) On 12 December 2002, the Company executed a preliminary purchase agreement with Raba Jarmuipari Holding Reszvenytarsag, pursuant to which the Company undertook to construct the residential development project, including buildings, utilities, roads and support networks on a property of approximately 430,000m<sup>2</sup> in the city of Gyor, Hungary. The parties agreed that the seller's consideration would be fixed at 11 per cent. of the proceeds from the sales of the units constructed on the land. Following the conclusion of the legal subdivision of each stage of the development, a final purchase agreement is to be executed between the parties, transferring title to the property for each stage to be developed.

#### **Note 27 – Subsequent events**

- (a) On 29 November 2005, the Company acquired from Engel General Developers a 95 per cent. beneficial interest in ECG Trust, which indirectly holds a 50 per cent. interest in three Canadian residential property developments. The consideration was TEUR 69 for the equity interest.
- (b) On 6 December 2005 the Company acquired from Engel General Developers, a 78 per cent. beneficial interest in Engel Yzum Bnia Vebitzua Shnaym (94) Ltd, an owner of land available for development in Germany. The consideration was TEUR 609 for the equity interests.
- (c) The Group has signed a letter of intent and is currently in advanced negotiation stages with an affiliate of the Heitman Fund regarding an investment in five projects in Sofia, Bulgaria, as well as in several future projects in Hungary and Poland. Should these negotiations be consummated, the Company's beneficial control in these projects is expected to be 50 per cent.
- (d) On 9 December 2005 the Company resolved to issue to its current shareholders 58,000,000 ordinary shares of EUR0.01 each at par by way of a dividend to be charged to the reserves of the Company.

#### **Note 28 – Related party transactions**

##### **Related party transactions**

The immediate parent company of the Group is Engel General Developers (incorporated in Israel) and the ultimate controlling party Jacob Engel, Chairman of the Company.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

## Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group although the uneliminated proportion transactions with joint ventures are included:

	<i>For the year ended</i>			<i>For the six</i>	
	<i>31 December</i>			<i>month ended</i>	
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>TEUR</i>	<i>TEUR</i>	<i>TEUR</i>	<i>TEUR</i>	<i>TEUR</i>
					<i>Unaudited</i>
<b>Income</b>					
Management fees	—	54	299	228	188
<b>Expenses</b>					
Royalties	472	593	226	16	174
Interest	68	—	106	—	—
Expense charges	535	29	443	—	180
Introduction, brokerage and professional services	—	3,284	1,000	—	1,000
Guarantees	—	116	—	—	—
Management fees	—	114	74	—	305

Amounts due to and due from related parties are disclosed in notes 15 and 7 respectively. Also see notes 9 and 26 for details of other related party transactions.

### Note 30 – Disposal of subsidiary

As referred in Note 26d. in February 2004 Arces, a wholly owned subsidiary, issued shares to the Heitman Fund such that a deemed disposal of 50 per cent. of its shares has been accounted for.

The 50 per cent. of each balance sheet line item of Arces at 31 December 2003 (which is not materially different from the date of disposal) were as follows:

	<i>31 December</i> 2003 TEUR
Cash and cash equivalents	2,281
Restricted bank deposits	2,334
Trade accounts receivable	42
Other accounts receivable	145
Inventories of housing units	7,954
Property and equipment	24
Investment in associate	114
Deferred tax asset	85
Trade accounts payable	(712)
Other accounts payable	(5,680)
Loans from banks	(4,126)
Loans from related parties and others	(782)
Minority interest	17
	<u>1,696</u>
Bridge loan (included at 100 per cent. as owed to purchaser and repaid from issue proceeds)	(4,000)
Gain on disposal	3,830
Total consideration	<u><u>1,526</u></u>
Satisfied by:	
Cash	1,875
Less transaction costs arising on disposal	(349)
Net cash consideration	<u><u>1,526</u></u>
Net cash outflow arising on disposal:	
Net cash consideration received	1,526
Cash and cash equivalents disposed of	(2,281)
	<u><u>(755)</u></u>

## 2. Accountants' Report

# Deloitte.

The Directors  
Engel East Europe N.V.  
Rapenburgerstraat 204  
1011 MN,  
Amsterdam  
The Netherlands  
Dear Sirs

9 December 2005

### Engel East Europe N.V.

We report on the financial information of Engel East Europe N.V. (the "Company") and, together with its subsidiaries, (the "Group") for the years ended 31 December 2002, 2003 and 2004 and the six month period ended 30 June 2005 set out in Part V.1 of the AIM Admission Document dated 9 December 2005 (the "Admission Document"). The financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in Note 2. This report is required by paragraph (a) of Schedule Two to the AIM Rules as if Annex I item 20.1 of the Prospectus Rules applied and is given for the purpose of complying with that requirement and for no other purpose.

### Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion as to whether the relevant 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 of 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 for the years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2005 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 or losses, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 2 and in accordance with International Financial Reporting Standards.

We express no opinion on the financial information for the six month period ended 30 June 2004 set out in Part V.1 of the Admission Document and which is marked "unaudited".

Yours faithfully

Deloitte & Touche LLP  
*Chartered Accountants*

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not DTT.

## PART VI

### Pro forma statement of net assets

Engel East Europe N.V.  
 Pro-forma Balance Sheet  
 As at 30 June 2005  
 (in TEUR unless indicated)

The unaudited pro forma balance sheet set out below is for the purposes of illustration only and may not, because of its nature, give a true picture of the financial position of the Group. It is based on the consolidated balance sheet of the Group as at 30 June 2005 extracted without material adjustments from the Historic Financial Information as set out in Part V.2 of this Admission Document, adjusted to reflect the acquisition of the Engel Group's activities in Canada and Germany in November 2005 and the net proceeds of the Placing receivable by the Company as if the acquisitions and Placing had taken place on 30 June 2005.

	<i>Engel East Europe B.V. Note 1</i>	<i>Canada Note 2</i>	<i>Germany Note 3</i>	<i>Consolidation adjustments Note 4</i>	<i>The placing Note 5</i>	<i>Pro forma</i>
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	3,333	716	—	—	40,050	44,099
Restricted bank deposits	3,943	248	—	—	—	4,191
Trade accounts receivable	206	—	—	—	—	206
Other accounts receivable	770	—	—	—	—	770
Amounts due from related parties and others	473	83	—	—	—	556
Housing units under construction	17,560	6,118	2,466	93	—	26,237
	<u>26,285</u>	<u>7,165</u>	<u>2,466</u>	<u>93</u>	<u>40,050</u>	<u>76,059</u>
<b>Non-current assets</b>						
Deferred tax assets	586	—	—	—	—	586
Fixed assets, net	60	1	—	—	—	61
Investment in associate	314	—	—	—	—	314
	<u>960</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>961</u>
<b>Total assets</b>	<u><u>27,245</u></u>	<u><u>7,166</u></u>	<u><u>2,466</u></u>	<u><u>93</u></u>	<u><u>40,050</u></u>	<u><u>77,020</u></u>
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Loans from banks	8,695	—	—	—	—	8,695
Amounts due to related parties and others	8,335	6,789	1,871	679	—	17,674
Trade accounts payable	878	—	—	—	—	878
Other accounts payable	4,979	386	—	—	—	5,365
	<u>22,887</u>	<u>7,175</u>	<u>1,871</u>	<u>679</u>	<u>—</u>	<u>32,612</u>
<b>Non-current liabilities</b>						
Deferred tax liabilities	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Equity</b>						
Equity attributable to equity holders of the parent	4,225	(9)	595	(717)	40,050	44,144
Minority interest	133	—	—	131	—	264
<b>Total equity</b>	<u>4,358</u>	<u>(9)</u>	<u>595</u>	<u>(586)</u>	<u>40,050</u>	<u>44,408</u>
<b>Total liabilities and equity</b>	<u><u>27,245</u></u>	<u><u>7,166</u></u>	<u><u>2,466</u></u>	<u><u>93</u></u>	<u><u>40,050</u></u>	<u><u>77,020</u></u>

## Notes

- Derived without adjustment from the historical financial information presented in Part V.2 of this Admission Document
- The Company acquired a 95 per cent. beneficial interest in the ECG Trust on 29 November 2005. The ECG Trust indirectly, through the Montreal Residential Holdings Master Limited Partnership ("MLP") owns a beneficial interest in three Canadian development projects. In addition the Company agreed to acquire on 8 December 2005 100 per cent. of the shares in 9152-8372 Quebec Inc. and 6212964 Canada Inc. (the "Management Companies"). The total consideration was TEUR 69 for the equity interest. The entries set out on the table below are required to present the acquisition of the Canadian operations of the Engel group:

	MLP CAN \$ Note (a)	MLP 50% CAN \$ Note (b)	Management Companies (aggregate) CAN \$ Note (a)	Total Canadian operations CAN \$	Total Canadian operations TEUR Note (c)	Adjustments TEUR Note (d)	Pro forma share of Canadian operations TEUR
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents	1,886	943	118	1,061	716	—	716
Restricted bank deposits	734	367	—	367	248	—	248
Amounts due from related parties and others	20	10	294	304	205	(122)	83
Housing units under construction	18,142	9,071	—	9,071	6,118	—	6,118
	<u>20,782</u>	<u>10,391</u>	<u>412</u>	<u>10,803</u>	<u>7,287</u>	<u>(122)</u>	<u>7,165</u>
<b>Non-current assets</b>							
Fixed assets, net	—	—	2	3	1	—	1
<b>Total assets</b>	<u>20,782</u>	<u>10,391</u>	<u>414</u>	<u>10,806</u>	<u>7,288</u>	<u>(122)</u>	<u>7,166</u>
<b>LIABILITIES AND EQUITY</b>							
<b>Current liabilities</b>							
Amounts due to related parties and others	20,358	10,179	68	10,247	6,911	(122)	6,789
Other accounts payable	812	406	167	573	386	—	386
	<u>21,170</u>	<u>10,585</u>	<u>235</u>	<u>10,820</u>	<u>7,297</u>	<u>(122)</u>	<u>7,175</u>
<b>Equity</b>							
Equity attributable to equity holders of the parent	(388)	(194)	180	(14)	(9)	—	(9)
<b>Total liabilities and equity</b>	<u>20,782</u>	<u>10,391</u>	<u>414</u>	<u>10,806</u>	<u>7,288</u>	<u>(122)</u>	<u>7,166</u>

- The MLP consolidated balance sheet at 30 June 2005 and the company only balance sheet of the Management Companies at 30 June 2005 are derived from interim financial statements reviewed and reported on by the statutory auditors of the entities without material adjustment.
  - The directors of EEE currently estimate that ECG Trust's interest in the developments to be 50 per cent. As the 5 per cent. holder of an interest in ECG Trust does not contribute to the losses made this is reflected as a 50 per cent. interest in MLP.
  - The balances have been translated at the 30 June 2005 exchange rate of CAN\$1.48 : EUR1.
  - Adjustments relate to the elimination of balances between the Management Companies and MLP's subsidiaries.
- EEE acquired 78 per cent. of the shares in Engel Yzum Bnia Vebitzua Shnaym (94) Ltd ("Yzum Shnaym") from Engel General Developers on 6 December 2005. The consideration was TEUR 609 for the equity interests. The balance sheet at 30 June 2005 has been extracted from the unaudited management accounts of Yzum Shnaym without adjustment. The minority interest in Yzum Shnaym is held by a third party.
  - The equity of the purchased entities has been eliminated and related parties balances have been netted off. In addition the premium of the consideration for the Canadian and German acquisitions has been recorded as an increase in the value of housing units under construction.
  - 27,777,778 shares have been placed at 108p/share resulting in gross proceeds of £30 million and after allowing for £3.3 million of issue costs and an exchange rate of EUR1.5 : GBP1 net proceeds are EUR40.05 million.

## PART VII

### Additional information

#### 1. Responsibility statement

The Company, whose registered office appears on page 3 of this document, and the Directors whose names and functions appear on page 3 of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Incorporation

- 2.1 The Company was incorporated in The Netherlands on 6 December 2000 by a notarial deed of incorporation as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), under Book 2 of the DCC, with the legal and commercial name “Engel General Dutch 2000 B.V.”. By a deed of amendment to the articles of association executed on 26 September 2005, the Company changed its name from “Engel General Dutch 2000 B.V.” to “Engel East Europe B.V.”. The Company was first registered in the commercial register of the Chamber of Commerce of Amsterdam on 14 December 2000, with registration number 34138775.
- 2.2 By a resolution of 9 December 2005, the shareholders of the Company resolved to change the form of the Company to a public limited liability company (*naamloze vennootschap*) under the name “Engel East Europe N.V.”. To that effect, the articles of association were amended and restated entirely by a notarial deed dated 9 December 2005.
- 2.3 The Company’s registered office is at Rapenburgerstraat 204, 1011 MN Amsterdam, The Netherlands. Telephone number +31 20 7784141.
- 2.4 The liability of each shareholder is limited to the unpaid sum, if any, owed in relation to its shares held in the Company.
- 2.5 The principal legislation under which the Shares have been created and under which the Company was formed and now operates is Book 2 of the DCC. A summary of certain applicable provisions of Dutch company law is set out in Part VIII of this document.
- 2.6 The Company trades under the name Engel East Europe N.V.

#### 3. The Company and its subsidiaries

The Company’s principal activity is that of a holding company and to organise and to carry out building projects throughout Europe as well as participate in such building projects. It is the parent company of the Group and has the following principal subsidiaries:

Name	Country of registration or incorporation	Principal activity	Beneficial percentage of issued share capital held by the Company and (if different) proportion of voting power held*
<b>Direct Holding by Company</b>			
(1) Enman B.V.	The Netherlands	Holding Company	100% <sup>1</sup>
(2) Arces International B.V.	The Netherlands	Holding Company	50% <sup>2</sup>

\* This percentage does not necessarily reflect the Company’s economic interest in each of the subsidiaries’ economic results, which may differ depending on the specific arrangements with other Shareholders or Partners in the subsidiaries.

1 If the transaction contemplated by the letter of intent with the affiliate of the Heitman Fund proceeds, the Company’s beneficial percentage will be reduced to 50 per cent.

2 Remaining 50 per cent. is held by the Heitman Fund.



<i>Name</i>	<i>Country of registration or incorporation</i>	<i>Principal activity</i>	<i>Beneficial percentage of issued share capital held by the Company and (if different) proportion of voting power held</i>
(3) Engel Management Sp. Z o.o.	Poland	Management Company	100%
(4) Palace Engel s.r.o.	Czech Republic	Residential Project Company	64% <sup>3</sup>
(5) Palace Enegl Development s.r.o.	Czech Republic	Residential Project Company	64% <sup>3</sup>
(6) Turlington Kft.	Hungary	Projects Management Company	100%
(7) Burlington Hungary Kft.	Hungary	Projects Management Company	100%
(8) Euro Bul Ltd.	Israel	Holding Company	100%
(9) Puribul Ltd.	Bulgaria	Residential Project Company	100%
(10) Nissim Ltd.	Bulgaria	Residential Project Company	100%
(11) ECG Trust	Canada	Holding Trust	95% <sup>4</sup>
(12) 6212964 Canada Inc.	Canada	Management Company	100%
(13) 9152-8372 Quebec Inc.	Canada	Management Company	100%
(14) Engel Yzum Bnia Vebizua Shnaym (94) Ltd.	Israel	Residential Project Company	78% <sup>5</sup>
<b><i>Indirect Holding through Subsidiaries</i></b>			
(15) Palace Engel I Sp. Z o.o.	Poland	Residential Project Company	50% <sup>6</sup>
(16) Engel Apartmenty Emilii Plater Sp. Z o.o.	Poland	Residential Project Company	50% <sup>4</sup>
(17) Engel Management s.r.o.	Czech Republic	Projects Management Company	100% <sup>7</sup>
(18) Palace Engel Dejvice s.r.o.	Czech Republic	Residential Project Company	32% <sup>8</sup>
(19) Palac Engel Safranka s.r.o.	Czech Republic	Residential Project Company	32% <sup>9</sup>
(20) Palace Engel Estate s.r.o.	Czech Republic	Residential Project Company	32% <sup>6</sup>
(21) Palace Engel Vrsovice s.r.o.	Czech Republic	Residential Project Company	20% <sup>10</sup>

3 Remaining 36 per cent. held by the Volksbank Entities.

4 The beneficiary of the remaining 5 per cent. of the beneficial rights in this trust is the project manager of the Canadian projects.

5 The remaining 22 per cent. are held by an unaffiliated company.

6 100 per cent. held by Arces International B.V.

7 100 per cent. held by Burlington Hungary Kft.

8 64 per cent. held by Arces International B.V. and 36 per cent. by the Volksbank Entities.

9 100 per cent. held by Palace Engel Dejvice Sro.

10 40 per cent. held by Arces International B.V., 15 per cent. held by a company wholly owned by the Company's CEO and 45 per cent. held by a former executive of the Company.

<i>Name</i>	<i>Country of registration or incorporation</i>	<i>Principal activity</i>	<i>Beneficial percentage of issued share capital held by the Company and (if different) proportion of voting power held</i>
(22) Agentura Novy Domov 2000 spol. s.r.o.	Czech Republic	Residential Project Company	20% <sup>11</sup>
(23) Engel Park Kft.	Hungary	Residential Project Company	50% <sup>12</sup>
(24) Engel Sun Palace Kft.	Hungary	Residential Project Company	50% <sup>12</sup>
(25) Engel Projekt Kft.	Hungary	Residential Project Company	50% <sup>12</sup>
(26) E.G. Company Ltd.	Bulgaria	Residential Project Company	100% <sup>13</sup>
(27) E.G. Project Ltd.	Bulgaria	Residential Project Company	100% <sup>13</sup>
(28) E.G. Gorna Banya Ltd.	Bulgaria	Residential Project Company	100% <sup>13</sup>
(29) E.G. Malinova Dolina Ltd.	Bulgaria	Residential Project Company	100% <sup>13</sup>
(30) Montreal Residential Holdings Master Limited Partnership	Canada	Holding Partnership	47.5% <sup>14</sup>
(31) 1638895 Ontario Inc.	Canada	Holding Company	47.5% <sup>15</sup>
(32) 1638896 Ontario Inc.	Canada	Holding Company	47.5% <sup>15</sup>
(33) 1638897 Ontario Inc.	Canada	Holding Company	47.5% <sup>15</sup>
(34) Le Quartier Quebec LP	Canada	Holding Partnership	47.5% <sup>16</sup>
(35) Trianon Sur Le Golf Quebec LP	Canada	Residential Project Partnership	47.5% <sup>17</sup>
(36) Le Chagall Quebec LP	Canada	Residential Project Partnership	47.5% <sup>18</sup>
(37) Le Quartier-Parisien Inc.	Canada	Residential Project Company	47.5% <sup>19</sup>
(38) Trianon Sur Le Golf Inc.	Canada	Residential Project Company	47.5% <sup>20</sup>
(39) Le Chagall Inc.	Canada	Residential Project Company	47.5% <sup>21</sup>

11 100 per cent. held by Palace Engel Vrsovice s.r.o.

12 100 per cent. held by Arces International B.V.

13 100 per cent. held by Enman B.V. If the transaction contemplated by the letter of intent with the affiliate of the Heitman Fund proceeds, the Company's beneficial percentage will be reduced to 50 per cent.

14 Remaining 50 per cent. beneficially owned by the Lehman Entity.

15 100 per cent. owned by Montreal Residential Holdings Master Limited Partnership.

16 A limited partnership 99.99 per cent. of which is owned by Montreal Residential Holdings Master Limited Partnership, and 0.01 per cent. owned by 1638895 Ontario Inc.

17 A limited partnership 99.99 per cent. of which is owned by Montreal Residential Holdings Master Limited Partnership, and 0.01 per cent. owned by 1638896 Ontario Inc.

18 A limited partnership 99.99 per cent. of which is owned by Montreal Residential Holdings Master Limited Partnership, and 0.01 per cent. owned by 1638897 Ontario Inc.

19 100 per cent. owned by Le Quartier Quebec LP.

20 100 per cent. owned by Trianon Sur Le Golf Quebec LP.

21 100 per cent. owned by Le Chagall Quebec LP.

#### 4. Principal establishments

4.1 The Company's head office is at Rapenburgerstraat 204, 1011 MN Amsterdam, The Netherlands.

4.2 The principal establishments of the Group are as follows:

<i>Company</i>	<i>Location</i>	<i>Approx area</i>	<i>Tenure</i>	<i>Current rent (per month)</i>	<i>Term of lease</i>
Turlington Kft.	1036 Budapest, Lajos Street 103, 2nd Floor, Hungary	178.75 sq.m	Lease	2681.25 EUR (paid in HUF)	30 April 2006 (with an option to renew the lease until 30 June 2006)
Engel Management s.r.o.	Vinohradska 25/35, Prague 2, 120 00, Czech Republic	127.5 sq.m	Lease	€1,000 (paid in CZK)	no term (can be terminated on 3 months' notice)
Engel Management Sp. Z o.o.	AL. Jerozolimskie 44/421, 00-024 Warsaw, Poland	94 sq.m	Lease	5,150 PLN	no term (can be terminated on 3 months' notice)
E.G. Company Ltd.	24 Budapeshta, Sofia, Bulgaria	150 sq.m	Lease	US\$500	19 April 2006
Euro Bul Ltd.	85 Medinat Hayehudim St. Business Park Herzliya Pituach Israel	240 sq.m	Lease	US\$2,880	16 February 2008
Le Chagall Quebec LP	5800 Cavendish Blvd, Suite 308, Cote St-Luc, Quebec, HYW 2T5 Canada	1,306 sq.f	Lease	CAD5101.36	1 October 2005

#### 5. Auditors

The Company's auditor for the period from 1 January 2002 to 30 June 2005 is KPMG Hungaria Kft, whose registered office appears on page 3 of this document.

#### 6. Share capital of the Company

6.1 The authorised and issued share capital of the Company at the date of this admission document is, and on Admission will be, as follows:

	<i>Authorised Number of Shares of €0.01 each</i>		<i>Issued and credited fully paid Number of Shares of €0.01</i>	
		€		€
Current	120,000,000	1,200,000	60,000,000	600,000.00
Proposed	120,000,000	1,200,000	87,777,778	877,777.78

#### 6.2 Share Capital Reconciliation

6.2.1 No Shares have been issued other than for cash consideration in the three financial years ended 31 December 2004. Since 31 December 2004 the authorised share capital of the Company has changed by an increase from €90,000 to €1,200,000 and by the subdivision of each share of €100 each into 10,000 shares of €0.01 each; the Company's issued share capital has not changed other than as set out in paragraph 6.7 below; the issued and authorised share capital of the Company has changed by the subdivision of each Share of €100 each into 10,000 Shares of €0.01 each.

6.2.2 The number of Shares outstanding at the beginning and end of the Company's last financial year is as follows:

<i>Date</i>	<i>Description</i>	<i>Shares</i>
31 December 2003	Balance brought forward	2,000,000*
31 December 2004	Balance brought forward	2,000,000*

6.3 All Shares represent capital in the Company. No Shares are held by or on behalf of the Company.

6.4 Save as disclosed in paragraph 6.8 below, there are no acquisition rights or obligations over authorised but unissued capital or an undertaking to increase the capital.

6.5 The amount and percentage of immediate dilution resulting from the Placing is 27,777,778 Shares, amounting to 31.6 per cent. dilution.

6.6 As part of the Placing, there has been no subscription offer to existing equity holders.

6.7 Since the Company's incorporation, the following changes have taken place to the Company's issued and fully paid share capital:

6.7.1 on incorporation of the Company on 6 December 2000, 180 shares of €100 each were issued to Engel General Developers, the incorporator, for cash at nominal value;

6.7.2 on 14 April 2003, by notarial deed, 13 shares in the Company were issued to Engel General Developers and 7 shares in the Company were issued to Glushette;

6.7.3 by execution of a deed of amendment to the Articles of Association on 9 December 2005, the nominal value of the Company's ordinary shares changed from €100 to €0.01 per share thereby splitting the Company's issued share capital into 2,000,000 shares with a nominal value of €0.01; and

6.7.4 by a shareholder's resolution dated 9 December 2005 the Company resolved to issue to the current Shareholders 58,000,000 Shares of €0.01 each at par by way of a dividend to be charged to the account of the share premium reserve of the Company.

6.8 Certain authorised share capital of the Company may be put under option pursuant to the Company's Share Option Plan. Details are set out in paragraph 20 below.

6.9 Under a subscription option deed dated 9 December 2005 and made between the Company and KBC Peel Hunt, the Company has granted to KBC Peel Hunt an option to subscribe for 438,889 Shares (subject to adjustment in the event of a subsequent issue of Shares or capital reorganisation) at the Placing Price, exercisable from Admission until 9 December 2010.

6.10 Under a subscription option deed dated 9 December 2005 and made between the Company and Dawnay Day, the Company has granted to Dawnay Day an option to subscribe for 555,556 Shares (subject to adjustment in the event of a subsequent issue of Shares or capital reorganisation) at the Placing Price, exercisable from Admission until 9 December 2010.

6.11 Save as disclosed in this paragraph, no other share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.

## **7. Resolutions relating to Placing Shares, the Placing and the Share Option Scheme**

By shareholders' resolution dated 9 December 2005, the following resolutions were approved:

7.1 the issue of 27,777,778 Shares of €0.01 at the Placing Price to be paid up in cash as part of the Placing; and

7.2 approval of the Share Option Scheme.

\* 200 Shares of €100 par value which have since been split to 2,000,000 Shares of €0.01.

## 8. Investments

- 8.1 Save as disclosed elsewhere in this document, the Company did not make any significant investments during each financial year covered by the historical financial information.
- 8.2 There are no significant investments in progress by the Company save for investments and commitments with regard to the Company's current development projects, nor does the Company have any firm commitments for any future investments.

## 9. Placing and lock-in arrangements

- 9.1 No Shareholder will sell Shares as part of the Placing.
- 9.2 Under the Placing Agreement, KBC Peel Hunt has agreed (conditionally, *inter alia*, on Admission taking place not later than 30 December 2005) as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. There is no obligation imposed on KBC Peel Hunt (or Dawnay Day) to subscribe themselves for any Placing Shares not taken up by any subscriber.

Under the Placing Agreement and subject to its becoming unconditional, the Company has agreed to pay KBC Peel Hunt a commission equal to 4.5 per cent. of the value at the Placing Price of the Placing Shares. If Admission does not occur in accordance with the Placing Agreement, the Company will pay to KBC Peel Hunt a corporate finance fee of £50,000 (plus applicable VAT).

Under the Placing Agreement, the Company has agreed to pay Dawnay Day a corporate finance fee of £40,000. The Company has, subject to the Placing Agreement becoming unconditional, agreed to pay Dawnay Day a success fee of the aggregate value at the Placing Price of the number of Placing Shares multiplied by 1.25 per cent. on gross proceeds of the Placing up to £20 million; and thereafter, multiplied by 1.5 per cent. on gross proceeds of the Placing in excess of £20 million, provided that if the fee of £40,000 has already been paid, that amount shall be deducted from the commission payable by the Company, subject to a minimum commission payable by the Company to Dawnay Day of £200,000.

The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all its legal, accounting and other professional fees and expenses and the fees of the legal advisers of Dawnay Day and KBC Peel Hunt, subject to an agreed cap.

The Placing Agreement contains warranties and indemnities given by the Company and the Directors to KBC Peel Hunt and Dawnay Day as to the accuracy of the information contained in this document and other matters relating to the Group and its business. KBC Peel Hunt and Dawnay Day are entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

- 9.3 Engel General Developers and Glushette have each undertaken, subject to certain limited exceptions, not to dispose of any Shares they are interested in for a period of 12 months from Admission. Further orderly marketing arrangements apply for a further 6 months following the expiry of the 12 month period referred to above pursuant to which Engel General Developers and Glushette have agreed that they will not dispose of any such Shares except through KBC Peel Hunt and subject to the prior written consent (not to be unreasonably withheld) of the Company, KBC Peel Hunt and Dawnay Day (provided that KBC Peel Hunt shall continue to be the Company's broker and the price and settlement terms are not less than the price and settlement terms offered by any other stockbroker or dealer in securities) and only in accordance with the reasonable requirements of KBC Peel Hunt with a view of maintaining an orderly market in the Shares. After the expiry of the

further 6 month period referred to above, each of Engel General Developers and Glushette have agreed that they will only dispose of any such Shares through KBC Peel Hunt (subject to the same provisions set out above).

## 10. Information on Directors' and other interests

### 10.1 The full names (including previous names), ages and functions of the Directors:

<i>Name</i>	<i>Age (Date of Birth)</i>	<i>Functions in the Company</i>
Jacob Engel	56 (17 January 1949)	Chairman
Clair Satchi	60 (13 November 1945)	Chief Executive Officer
Nir Netzer	35 (30 December 1970)	Finance Director
Yaron Shama	36 (25 September 1969)	Executive Director
Terry Rene Roydon	58 (26 December 1946)	Non-Executive Director
Marius Willem van Eibergen Santhagens	54 (6 August 1951)	Non-Executive Director

### 10.2 The interests of the Directors, their immediate families and connected persons within the definition set out in the Dutch Act on the Supervision of the Securities Trade 1995 (*wet toezicht effectenverkeer 1995*) in the issued share capital of the Company, together with any options in respect of such capital, which have been notified to the Company pursuant to the Dutch Act on the Supervision of the Securities Trade 1995 (*wet toezicht effectenverkeer 1995*), or could with reasonable diligence be ascertained by that Director, whether or not held through another party, as at the date of this document and on Admission, are or are expected to be as follows:

<i>Director</i>	<i>Before Admission</i>		<i>Following Admission</i>		<i>Number of Shares under option</i>
	<i>Number of Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Shares</i>	<i>Percentage of issued share capital</i>	
Jacob Engel <sup>1</sup>	57,900,000	96.50	57,900,000	65.96	—
Clair Satchi	2,100,000	3.50	2,100,000	2.39	—
Terry Roydon <sup>2</sup>	—	—	92,593	0.11	—

1 Through his beneficial control of the Controlling Shareholder.

2 Terry Roydon has agreed to subscribe for 92,593 Placing Shares.

### 10.3 Save as disclosed in paragraph 10.2 above, the Company is not aware of any person who will, immediately following Admission, be interested (for the purposes of section 198 of the Companies Act 1985) directly or indirectly in three per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

### 10.4 The persons, including the Directors, referred to in paragraphs 10.2 above, do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other shareholder of the Company.

### 10.5 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

### 10.6 Save as disclosed in paragraph 14 below, no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

10.7 The Directors currently hold, and have during the five years preceding the date of this document held, the following directorships or partnerships:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Jacob Engel	<p>Engel East Europe N.V.  Arces International B.V.  9152-8372 Quebec Inc.  Engel Research &amp; Development (1993) Ltd.  Engel Apartamenty Emilii Plater Sp. Z o.o.  Palace Engel I Sp. Z o.o.  Ogrt Shtayim (93) Ltd.  Ogrt Shalosh (93) Ltd.  Ogrt Arba (93) Ltd.  Ogrt Hamesh (93) Ltd.  Ogrt Shesh (93) Ltd.  Ogrt Sheva (93) Ltd.  Ogrt Shmone (93) Ltd.  Ogrt Tesha (93) Ltd.  Ogrt Eser (93) Ltd.  Ogrt Ahad Asar (93) Ltd.  Ogrt Shnem Asar (93) Ltd.  Ogrt Shlosa Asar (93) Ltd.  Agrt Arbaa Asar (93) Ltd.  Engel Yzum Bnia Vebizua Ehad (94) Ltd.  Engel Yzum Bnia Vebizua Shalosh (94) Ltd.  Engel Yzum Bnia Vebizua Arba (94) Ltd.  Engel Yzum Bnia Vebizua Shnaym (94) Ltd.  Engel Yzum Bnia Vebizua Hamesh (94) Ltd.  Engel – Hotels &amp; Resorts (1993) Ltd.  Y.E.E.Y. Investments Ltd.  Engel Resources and Energy Ltd.  Negev Sand Dunes Ltd.  E.G. Taas G.I.S. Ltd.  Bustico Ltd.  M. Eran Construction and Holdings 2001 Ltd.  City Towers (Haifa) Ltd.  Bar Square Ltd.  Golden Carmel Rose Ltd.  The First Factor (2002) Ltd.  Karambola Real Estate Investments Ltd.  Kashlat Assets &amp; Investments Ltd.  Engel Lincoln Ltd.  Danbar Assets Ltd.  Mashabim Holdings (Magen 1993) Ltd.  Engel Netivim Ltd.  Engel Investments and Projects Promotion Ltd.  Engel Hatayelet Properties Ltd.  Engel House Management and Maintenance Ltd.  Dan-Av Buildings For Industry (1991) Ltd.  Desalination Enterprises (Haifa) Management and Operation (2001) Ltd.  Desalination Enterprises (Haifa) Ltd.  M.H.Y. Desalination Enterprises (Israel) Ltd.  Engel Resources and Development Ltd.  Engel Global (Canada) Ltd.  Engel Global Ltd.  Danbar Securities and Investments (1987) Ltd.  Danbar Holdings and Investments (1998) Ltd.  Danbar Holdings Ltd.  Danbarit One Ltd.  Engel Europe Ltd.  Vigat Ltd.  Engel – Construction Loans Ltd.  Farah Center in Nazareth Ltd.  Shtoren Holdings Ltd.  Ogrt Ltd.  Tomsean Holdings Ltd.  Engel Bonds Holdings Ltd.  Engel Science Parks (99) Ltd.  Arye Centers in Binyamina Ltd.  Scan Group Yokneam Ltd.  Engel – Industry Rental Buildings (92) Ltd.  Ofer E.K. Real Estate Holdings Ltd.  Engel Managing and Projects Performance Contractors (94) Ltd.  Engel Investments in Real Estate and Construction (94) Ltd.  Engel Public Projects and Infrastructure Ltd.  Engel-Aniam Ltd.  Engel-Financial Credit for Construction Ltd.  Engel Zemer – Company for Construction and Investments Ltd.</p>	Engel Trade Centers Ltd

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Jacob Engel (continued)	Horfiot Haifa Assets Ltd. Aradim Ltd. Euro-Bul Ltd. The Company for the Development of Kiryat Shoham Gate Ltd. Engel Company for Construction Residence and Investments Ltd. Engel – Bniat 2000 (1991) Ltd. Kayziot Haifa Assets Ltd. Engel General Developers Ltd.	
Clair Satchi	Engel East Europe N.V. Glushette Ltd. Lylya Ltd. Vered Ltd. Mataei Hadar Ltd. Talroni Projects Ltd. Enman B.V. Arces International B.V. E.G. Company Ltd. 9152-8372 Quebec Inc. Nissim Ltd. Puri Bul Ltd. Engel Management Sp. Z o.o. Palace Engel I Sp. Z o.o. Engel Apartamenty Emilii Plater Sp. Z o.o. Danbar Krakow Sp. Z o.o. Palace Engel Mokotow Sp. Z o.o. Euro Bul Ltd. Montreal Holdings Ltd. Place 400 Inc. 9102-1162 Quebec Inc. 9110-7268 Quebec Inc. 9130-0590 Quebec Inc. 9102-1154 Quebec Inc.	—
Nir Netzer	Engel East Europe N.V. Euro Bul Ltd.	—
Terry Roydon	Hansom Property Company Limited Magnum Fine Wines PLC PPS Group Limited St Helen's School Anglo-European Estates Limited Country & Metropolitan PLC McCann Homes Limited Robust Details Limited Gladedale Holdings PLC Dom Development S.A. IMP Gestion et Participations S.A. Maisons Pierre S.A. Bravirocha Lda. Lusitagus Lda. Arte e Renovação Lda.	Banner Homes Group PLC Swallow Homes Limited Foldhilt Limited National House Building Council Housebuilders Federation Ltd.
Marius van Eibergen Santhagens	Santhagens Management B.V. Caduceus Partner in Management B.V. Leisure Investments & Finance B.V. Velduil B.V. Leisure Investment Fund B.V. Harrier Management B.V.	—
Yaron Shama	Engel East Europe N.V. Engel Management Sp. Z o.o. Palace Engel I Sp. Z o.o. Engel Apartamenty Emilii Plater Sp. Z o.o. Palace Engel Mokotow Sp. Z o.o. Danbar Krakow Sp. Z o.o.	Plaza Centers Management Sp. Z o.o.

#### 10.8 No Director has:

- 10.8.1 any unspent convictions in relation to indictable offences;
- 10.8.2 had a bankruptcy order made against him or entered into an individual voluntary arrangement;
- 10.8.3 been a director of a company which, at that time or within 12 months after ceasing to be a director, was the subject of receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition arrangement with its creditors generally or with any class of its creditors;



- 10.8.4 been a partner in any partnership which has been the subject of any compulsory liquidation, administration or partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- 10.8.5 been the owner of any asset or a partner in any partnership which had an asset placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be partner in that partnership;
- 10.8.6 been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies); or
- 10.8.7 been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

## **11. Directors' remuneration**

- 11.1 The aggregate remuneration paid and benefits in kind granted to the Directors as a group during the last completed financial year (year ending 31 December 2004) of the Company was €428,000.
- 11.2 The aggregate remuneration granted to the Directors in respect of the Company's current financial year is estimated, under the arrangements in force at the date of this document and the arrangements proposed to be adopted shortly following Admission, to be approximately €363,000, of which €130,000 is conditional upon Admission.
- 11.3 The aggregate remuneration to be granted to the Directors in respect of the Company's financial year ending 31 December 2006 is estimated, under the arrangements in force at the date of this document and the arrangements proposed to be adopted shortly following Admission, to be approximately €775,000, of which €475,000 is conditional upon Admission.
- 11.4 The Company has agreed to pay Hansom Property Company Limited €37,000 for services provided by Terry Roydon to the Company in relation to the Admission.
- 11.5 There are no outstanding loans or guarantees provided by any member of the Group to or for the benefit of any of the Directors and executive officers.
- 11.6 The Company has purchased directors and officers liability insurance for the benefit of the Directors.
- 11.7 The Company has undertaken to indemnify the directors for any personal liability imposed on them as a result of their service as directors and/or executive officers of the Group, for which they are not compensated under the insurance policy mentioned in paragraph 11.5 above.

## **12. Board practices**

- 12.1 The following agreements have been entered into between the Directors and the Company, in each case conditional on and commencing from Admission:
  - 12.1.1 a service agreement dated 9 December 2005 between (1) the Company and (2) Engel Research & Development (1993) Ltd., a company owned by Jacob Engel, pursuant to which the services of Jacob Engel, as Chairman, are to be provided to the Company, for an initial period of two years and terminable by either party on one year's written notice, in return for an amount (subject to annual review) of £290,000 per annum (exclusive of VAT). Further, Engel Research & Development (1993) Ltd. shall receive a performance related annual bonus at the discretion of the Company's remuneration committee. Mr. Engel will be entitled to a company car and a cellular phone, and shall be reimbursed for all expenses related to such car and cellular phone. Mr. Engel will also be reimbursed for all telephone and communication expenses and all expenses incurred in the furtherance of the Company's business, including travel and lodging. All of the financial terms of the service agreement are to be approved by the Company's remuneration committee following Admission;

- 12.1.2 a service agreement dated 9 December 2005 between (1) the Company and (2) Talroni Projects Ltd., a company owned by Clair Satchi pursuant to which the services of Clair Satchi, as chief executive officer, are to be provided to the Company, for an initial period of two years and then terminable by either party on 60 days written notice, in return for an amount (subject to annual review) of £95,000 per annum (exclusive of VAT). Further, Talroni Projects Ltd. shall receive a performance related annual bonus at the discretion of the Company's remuneration committee. Ms. Satchi will be entitled to a company car and a cellular phone, and shall be reimbursed for all expenses related to such car and cellular phone. Ms. Satchi will also be reimbursed for all telephone and communication expenses and all expenses incurred in the furtherance of the Company's business, including travel and lodging;
- 12.1.3 a service agreement dated 9 December 2005 between (1) the Company and (2) D.E.N. Financial Consulting Ltd., a company owned by Nir Netzer, pursuant to which the services of Nir Netzer, as chief financial officer, are to be provided to the Company, for an initial period of two years and then terminable by either party on 60 days written notice, in return for an amount (subject to annual review) of £40,000 per annum (exclusive of VAT). Mr. Netzer will be entitled to a company car and a cellular phone, and shall be reimbursed for all expenses related to such car and cellular phone. Mr. Netzer will also be reimbursed for all telephone and communication expenses and all expenses incurred in the furtherance of the Company's business, including travel and lodging;
- 12.1.4 a service agreement dated 9 December 2005 between (1) the Company and (2) a company owned by Yaron Shama pursuant to which the services of Yaron Shama, as executive director, are to be provided to the Company, for an initial period of two years and then terminable by either party on 30 days written notice, in return for an amount (subject to annual review) of US\$120,000 per annum (exclusive of VAT). Mr. Shama will be entitled to a company car and a cellular phone, and shall be reimbursed for all expenses related to such car and cellular phone. Mr. Shama will also be reimbursed for all telephone and communication expenses and all expenses incurred in the furtherance of the Company's business, including travel and lodging;
- 12.1.5 a letter of appointment dated 17 November 2005 between (1) the Company and (2) Hansom Property Company Limited pursuant to which Terry Roydon is to be appointed as a non-executive director of the Company, the appointment being (subject to the provisions for retirement and re-appointment contained in the articles of association) for an initial period of one year, terminable by either party on six months' written notice, at an annual fee (exclusive of VAT) of £20,000; and
- 12.1.6 a letter of appointment dated 17 November 2005 pursuant to which Marius van Eibergen Santhagens is to be appointed as a non-executive director of the Company, the appointment being (subject to the provisions for retirement and re-appointment contained in the articles of association) for an initial period of one year, at an annual fee (exclusive of VAT) of €10,000.
- 12.2 Save as described above, any payment for loss of office is restricted to the amount of salary plus any other contractual entitlements or entitlements under applicable law that the Director would normally receive for the term of his contract or the term of the notice and restrictive covenant period, as the case may be.
- 12.3 Save as disclosed in paragraphs 12.1.1 to 12.1.6, there are no service agreements, existing or proposed, between any Director and the Company.
- 12.4 The Company does not fully comply with the Dutch Corporate Governance Code supplemented by the Combined Code (as recommended by the Guidance Note on Corporate Governance issued by the Quoted Companies Alliance in July 2005). Further details of the Company's Corporate Governance policies are set out in Part II, paragraph 9.

### **13. Major shareholders**

- 13.1 At the date of this document and on Admission, so far as the Directors are aware, the only legal entity (other than Directors, whose interests are set out in paragraph 10.2) which is directly or indirectly interested in more than 5 per cent. (being the lowest threshold at which an interest is required to be notified under Dutch law) or more of the issued Shares is, and will be, the Controlling Shareholder, which prior to Admission held a 96.5 per cent. interest in the Company. On Admission, the Controlling Shareholder will hold a 65.96 per cent. interest in the Company. Jacob Engel is the ultimate beneficial shareholder of the Controlling Shareholder.
- 13.2 The Controlling Shareholder, as the Company's major shareholder, does not have any different voting rights to the other shareholders.

### **14. Related party transactions**

The following related party transactions are transactions which, as a single transaction or in their entirety, are or may be material to the Company and have been entered into by the Company or any other member of the Group during the period commencing on 1 January 2002 and terminating immediately prior to the date of this document. Each of the transactions was concluded at arm's length.

- 14.1 The Company has entered into an agreement with Engel Research & Development (1993) Ltd., a company owned by Jacob Engel, the Company's executive chairman and the ultimate beneficial controlling shareholder of the Engel Group, whereby such company will provide the Company with the services of Mr. Engel as the Company's executive chairman for a period of two years. The financial terms of the proposed engagement, which terms are subject to the approval of the Company's remuneration committee following Admission, are summarised in paragraph 12.1 above.
- 14.2 The Company acquired from affiliated companies beneficially owned by Engel General Developers shares and beneficial rights in a number of companies and partnerships through which the rights in some of the Group's development projects are held (see paragraph 18.4 below).
- 14.3 As part of the agreements whereby the Heitman Fund and the Lehman Entity invested in certain of the Group's projects, Engel General Developers received certain fees, as well as the repayment of parts of loans it provided to Group companies prior to such investments. Further details regarding these agreements are set out in paragraphs 18.2 and 18.3 below.
- 14.4 The Company, Engel General Developers and Dawnay Day entered into a controlling shareholder agreement dated 9 December 2005, further details of which are set out in paragraph 18.6 below.
- 14.5 The Company, Engel General Developers, Dawnay Day and KBC Peel Hunt entered into a lock-in agreement dated 9 December 2005, further details of which are set out in paragraph 9.3 above.
- 14.6 The balance of loans owed by the Group to Engel General Developers will bear, as of Admission, an annual interest equal to the EURIBOR rate for 12 months, by the Company out of its available cash flow. In any event Engel General Developers has agreed that it will not call for repayment of these loans before 1 April 2006. During the years preceding Admission, the balance of outstanding loans provided by Engel General Developers to Group companies varied in accordance with the Group's financing requirements and repayment capabilities.
- 14.7 Part of the Group's management has previously utilised certain office space of, and received certain office services from, Engel General Developers. Prior to Admission, these arrangements were terminated and the Group has entered into agreements and arrangements whereby it bears such costs directly.

- 14.8 The Company and Engel General Developers entered into an agreement whereby Engel General Developers granted the Company permission to use the trademark “Engel” in its development activities in the CEE Region in return for payment of royalties based on a percentage of sales by the Group. This agreement has been terminated prior to Admission.
- 14.9 In September 2002, a Group company entered into an agreement with Engel General Developers and an affiliate of Engel General Developers (the “Engel Affiliate”), which owned the land for the Group’s Sun Palace project in Hungary. Under this agreement, the Group company would pay the Engel Affiliate 25 per cent. of the proceeds received from this project in return for providing it with the land for the project and the right to develop it and sell the units and commercial space it constructs on the land. In December 2003, the parties entered into a second agreement whereby the cost to the Group company for the rights in such land will be limited to €8 million, and that Engel General Developers shall be responsible for the payment to the Engel Affiliate of all amounts due to it pursuant to the original agreement which exceed €8 million.

## 15. Legal and arbitration proceedings

- 15.1 Save as disclosed in paragraphs 15.2 and 15.3 below, neither the Company nor its subsidiaries is or has been engaged in any governmental, legal or arbitration proceedings which are likely to have, or have had during the 12 months preceding the date of this document, a significant effect on the Group’s financial position nor are any such proceedings pending or threatened of which the Company is aware.
- 15.2 In June 2004, the Company entered into a turn-key construction agreement with a Polish contractor for the construction of a project in Zabki, Poland, for total consideration of approximately €7,160,000, out of which the price set for the first building was €1,913,000. The first building was supposed to be completed by August 2005. However, the pace and quality of work did not match the contractor’s contractual obligations, which resulted in delays. In May 2005, the Company was informed that the contractor’s owner and manager had passed away. Shortly thereafter the contractor’s workers abandoned the project site. On the date the site was abandoned, only a 3 storey skeleton (out of 5 storeys), was in place. Under these circumstances, the Company utilised its contractual rights to complete the project on its own and retained another contractor to continue the works. In addition, the Company foreclosed on a performance bond granted to it by the defaulting contractor, withheld certain equipment and materials required by it for the construction and withheld payments to the defaulting contractor, in order to minimize the cost overruns which were caused to the Company due to these circumstances. Although the Company considers that it acted within its rights under its agreement with the contractor, it may be subject to a claim for payment of certain amounts by the contractor. The Company further considers that it has a counterclaim for damages against the contractor.
- 15.3 In December 1994, the Group concluded a purchase agreement for certain lands located in the German countryside at Rassnitz between Halle and Leipzig. Pursuant to two subsequent amendments to the original purchase agreement, it was agreed that the initial purchase price would be reduced from 6.6 million German Marks to 3.2 million German Marks. The parties also agreed that the new purchase price was to be paid in two 1.6 million German Mark tranches. Although the Group paid the first tranche of 1.6 million German Marks, the second tranche has been outstanding since April 1999. No further action has been taken.

## 16. Significant change

There has been no significant change in the financial or trading position of the Group since 30 June 2005, the date to which the last audited accounts of members of the Group were prepared, other than as disclosed in this document.

## 17. Articles of Association

The Company’s byelaws are contained in its articles of association. There is no separate memorandum of association or equivalent under Dutch law. The Company’s articles of association, which were adopted on 9 December 2005 by resolution of the shareholders of the Company dated 9 December 2005, contain, *inter alia*, provisions to the following effect:

- 17.1 Pursuant to Article 3 of the Company's articles of association, the objects of the Company are:
- 17.1.1 to organise and carry out building projects as well as to participate in such building projects;
  - 17.1.2 to incorporate, to acquire, to participate in, to finance, to manage and/or to have any other interest in other companies or enterprises of any nature;
  - 17.1.3 to acquire, to develop and to use and/or to assign industrial and intellectual property rights; and
  - 17.1.4 to raise funds by way of securities, bank loans, bond issues, (promissory) notes and/or to borrow in any other way, to lend, to provide guarantees, to bind the company and/or to pledge its assets for obligations of the company and of other companies and enterprises with which it forms a group.
- 17.2 *Board of Directors*
- 17.2.1 Pursuant to the articles of association, the Board (*het bestuur*) is responsible for the management of the Company. Pursuant to the articles of association, the Board consists of one or more managing directors A and one or more directors B, whereby the directors A are the executive directors and directors B the non-executive directors.
  - 17.2.2 Pursuant to the articles of association, the Board and two executive directors authorised from time to time by the Company, may represent the Company. The non-executive directors have no power to represent the Company. If a director enters into an agreement with the Company or, in a private capacity, institutes legal proceedings against the Company, the Company may be represented by all of the executive directors acting as a whole or by the remaining directors acting jointly. If a director becomes subject to a conflict between his interests (other than personal interests) and those of the Company, that executive director may continue to represent the Company by acting jointly with another director.
  - 17.2.3 The Board may adopt resolutions by a simple majority of the votes cast. Specific resolutions (articles of association) require the prior approval of the directors B.
  - 17.2.4 Pursuant to the articles of association, the general meeting is entitled to appoint members of the Board. The general meeting determines the remuneration of individual members B of the Board, in accordance with the remuneration policy adopted by the general meeting and the contractual terms and conditions of employment of members of the Board. Pursuant to the articles of association, the directors B determine the remuneration of directors A. Pursuant to the articles of association, both individuals and legal entities can serve as members of the Board.
  - 17.2.5 Pursuant to Dutch law, the general meeting is entitled to dismiss or temporarily suspend members of the Board by a majority of the votes provided that this majority represents more than one half of the issued share capital from time to time.
  - 17.2.6 Members of the Board shall be appointed for a maximum period of four years
- 17.3 *Rights, preferences and restrictions attaching to the Company's shares*
- Each share confers the right to cast one vote at the general meeting. There are no restrictions, either under Dutch law or in the articles of association, on the right of non-residents of The Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents. Subject to certain exceptions provided by Dutch law or the articles of association, resolutions are passed by a simple majority of the votes cast unless Dutch law or the articles of association prescribe a greater majority.

#### 17.4 *Variation of rights*

The articles of association do not impose further constraints or restrictions to shareholders other than provided by Dutch law and the articles of association do not contain provisions regarding actions that may be necessary to change the rights of shareholders.

#### 17.5 *Issue of Shares*

17.5.1 The articles of association provide that the power to issue Shares has been delegated to the Board for five years as of 9 December 2005 until 9 December 2010. Thus, Shares may be issued pursuant to a resolution of the Board subject to the approval of directors B. The designation of the Board as the corporate body authorised to resolve to the issue of shares may be extended from time to time, upon resolution of the general meeting, for a period not exceeding five years. As long as the Board is authorised to issue Shares, the general meeting may not resolve to issue Shares. When resolving to issue new Shares, the Board must, with due observance of the provisions in the articles of association, determine the price and further terms and conditions of issue. The proposal for a resolution to issue Shares must also contain the reasons for taking this decision and the proposed issue price for the shares.

17.5.2 Unless permitted by Dutch law, Shares may not be issued below their nominal value.

17.5.3 Subject to Dutch law and the articles of association, shareholders have non-transferable pre-emption rights to subscribe, upon their issue of new Shares in proportion to the aggregate amount of Shares they hold. According to Dutch law and the articles of association, this pre-emption does not apply in respect of:

17.5.3.1 any issuance of shares to the employees of the Company or employees of a group company (*groepsmaatschappij*) of the Company;

17.5.3.2 shares issued against payment in kind; and

17.5.3.3 issuance of shares to a person who exercises a previously acquired right to subscribe for shares.

The Company must announce any issue of Shares with pre-emption rights for shareholders and the period during which these rights can be exercised in the Dutch Official Gazette (*Staatscourant*) and in a Dutch daily newspaper with nation-wide distribution. The period during which pre-emption rights can be exercised must be at least two weeks starting from the date on which the issue is announced in the Dutch Official Gazette (*Staatscourant*).

17.5.4 The pre-emption rights may be restricted or excluded by resolution of the Board, provided that the Board also has the authority to resolve to the issue of shares. The authority of the Board to restrict or exclude the pre-emption right ends as of the moment at which the authority of the Board to issue shares ends. Thus, the power to restrict or exclude pre-emption rights may be delegated to the Board for a period of no more than five years. This period may be extended for successive periods not exceeding five years, upon resolution of the general meeting. Unless the authorisation provides otherwise, it cannot be revoked.

17.5.5 Resolutions of the Board to issue new Shares or to restrict or exclude pre-emption rights require an absolute majority of the votes cast.

17.5.6 The provisions summarised in sub-paragraphs 17.5.1 to 17.5.5 apply similarly to the granting of rights to subscribe to shares in the capital of the Company.

17.5.7 The authority to issue shares and to grant rights to subscribe for shares, and the authority to exclude the pre-emption of rights of shareholders in connection therewith has been delegated to the Board until 9 December 2010. This delegation extends to all shares in the share capital of the Company not yet issued at the time of the resolution of issue or grant.

## 17.6 *Form and Transfer of shares*

- 17.6.1 The Shares of the Company are in registered form. They are only available in the form of an entry in the share register of the Company without the issuance of a share certificate. Share certificates shall not be issued.
- 17.6.2 Subject to Dutch law and the articles of association, the Company must keep a shareholders register. The shareholders register must be regularly kept up-to-date. It may, fully or partially, consist of multiple copies and must be kept at the offices of the Company. Parts of the shareholders' register may be kept outside The Netherlands, provided that it is necessary to do so to comply with local law or applicable provisions of a stock exchange on which the securities of the Company are listed. The register records the names, addresses and all other information of all shareholders of which the law demands recording and such other information which as is desirable in the view of the Board. The requirement applies similarly to holders of a right of pledge on shares and holders of a right of usufruct on shares. Shareholders, holders of a right of pledge on shares and holders of right of usufruct on shares will at their request be provided free of charge with a written statement of the recording in the register with respect to shares entered at their name, which statement may be signed on behalf of the Company by a special representative to be designated thereto by the Board.
- 17.6.3 The Board may allow inspection into the register and provide information regarding the direct or indirect shareholding of a shareholder provided to the Company by such shareholder, to foreign supervisory authorities, in order to comply with the statutory requirements or the requirements set by such foreign securities law. The preceding sentence is only applicable if and insofar as such requirements are applicable to the Company and its shareholders pursuant to a listing of the shares in the share capital of the Company on a stock exchange or pursuant to the registration of an offer of such shares under the applicable securities law.
- 17.6.4 Subject to Dutch law and the articles of association, shares are transferred by written notarial deed. To ensure the effectiveness of the transfer vis-à-vis the Company, the deed of transfer must be served to the Company, or the transfer must be acknowledged by the Company, all in accordance with the provisions of Dutch law and the articles of association.

## 17.7 *General Meetings*

- 17.7.1 General meetings are held in Amsterdam, Rotterdam or in Haarlemmermeer (Schiphol Airport). The Company must convene its annual general meeting within six months after the end of the financial year. The agenda for the annual general meeting must contain, among other items placed on the agenda in accordance with Dutch law and the articles of association, the discussion of the Board's annual report, the adoption of the financial statements and the allocation of profits, the discharge of the members of the Board from liability for the fulfilment of their duties during the relevant financial year and, if applicable, a proposal to pay a dividend.
- 17.7.2 The agenda may contain the items selected by the person(s) convening the meeting. In addition, unless contrary to an important interest of the Company, the agenda may contain the items requested by one or more shareholders or other persons entitled to attend general meetings, alone or together representing at least one per cent of the issued share capital or representing the amount of market capitalisation set by law. Requests must be filed with the Board at least sixty days before the day of the meeting. Resolutions cannot be taken in respect of subjects that have not been mentioned in the agenda.
- 17.7.3 Extraordinary general meetings must be convened whenever the Board considers this appropriate. In addition, shareholders and holders of a right of usufruct or pledge who have the right to vote, who individually or together hold to at least one-tenth (1/10) of the total issued capital, may, stating the items to be discussed, request the Board to convene an extraordinary general meeting.

- 17.7.4 General meetings are presided over by the Chairman of the Board, or by another person charged by the Chairman of the Board to preside over such a meeting. In the absence of the Chairman of the Board without having charged a person to preside over the meeting, the general meeting itself appoints its chairman. The Chairman must designate the secretary.
- 17.7.5 All shareholders and other persons entitled pursuant to Dutch law or the articles of association to attend and/or vote at general meetings are entitled to attend general meetings, to address the general meeting and if applicable to vote.
- 17.7.6 Shareholders and other persons entitled pursuant to Dutch law or the articles of association to attend and/or vote at general meetings must hold their shares or DIs both on the day mentioned in the notice for the meeting and on the day of the meeting itself.
- 17.7.7 Shareholders may be represented at general meetings by written proxy.
- 17.7.8 Members of the Board will be entitled to attend general meetings and as such will have an advisory vote at general meetings.
- 17.8 *Provisions which would have the effect of delaying, deferring or preventing a change in control of the Company*  
The articles of association of the Company do not contain provisions which would have the effect of delaying, deferring or preventing a change in control of the Company.
- 17.9 *Provisions which set out an ownership threshold above which shareholder ownership should be disclosed*  
The articles of association of the Company contain a provision in article 13A which sets out an ownership threshold above which a shareholder ownership should be disclosed in addition to provisions of mandatory Dutch law, which are summarised in Part VII of this document under the heading “Significant Ownership of Shares”.
- 17.10 *Repurchase by the Company of its own shares*  
Subject to the authorisation of the general meeting, and subject to the provisions of Dutch law and the articles of association, the Board of Directors may cause the Company to acquire fully paid up shares (or DIs of such shares) in its own share capital, provided that:
- 17.10.1 the net assets less the acquisition price is not less than the sum of the paid-up and called-up capital plus the reserves which must be maintained by law; and
- 17.10.2 the nominal amount of the shares in its capital which the Company acquires, holds, holds in pledge or which are held by a subsidiary does not exceed one-tenth (1/10) of the issued capital;  
these restrictions do not apply to the acquisition of shares for free;
- 17.10.3 the general meeting of shareholders has authorised to acquire such shares, which authorisation shall be valid for no more than eighteen months on each occasion.
- The Board may be delegated the authority to acquire shares in the Company’s share capital for a maximum period of eighteen months. In its resolution the general meeting must provide the number of shares that the Company may acquire, how these shares may be acquired and the price range to be observed.
- The Board may resolve to dispose of shares that the Company acquired in its own share capital.
- 17.11 *Financial Statements and Auditor*
- 17.11.1 The financial year of the Company shall be the calendar year. The Board must prepare the annual accounts within five months after the end of the financial year except in the event of extension of this period by six months at most by the general meeting on the basis of special circumstances. The financial statements must be made available for inspection by shareholders at the offices of the Company within the same period.



- 17.11.2 Subject to Dutch law, the financial statements must be accompanied by an auditor's statement, an annual report and other mandatory information.
- 17.11.3 The general meeting will be authorised to appoint the auditors of the Company. If the general meeting does not make such instruction, the Board will be authorised thereto.
- 17.11.4 Determination of, without limitation, such matters as the amount of profit and loss, the size of the distributable reserves and whether it is allowed to repurchase shares (or DIs) must be made on the basis of the Company's statutory financial statements.
- 17.12 *Profit and Loss*
- 17.12.1 After adoption of the financial statements which show that a distribution of profits is allowed, the profit will be at the disposal of the general meeting. The Board must determine the amount of the profit to be reserved and to be distributed.
- 17.12.2 The Company may only make distributions to shareholders and other persons entitled to distributable profits only to the extent that its equity exceeds the total of its issued share capital and the reserves to be maintained pursuant to Dutch law.
- 17.12.3 The Board may, with due observance of the provisions of paragraph 17.12.9 and pursuant to an interim statement of assets and liabilities, resolve to pay interim dividends.
- 17.12.4 The Board may, with due observance of the provisions of paragraph 17.12.9, resolve to make distributions out of reserves which are distributable under Dutch law or the articles of association.
- 17.12.5 Distributions of profits and interim dividends are made available for payment on a date and at a place to be determined by the Board within four weeks after the determination thereto.
- 17.12.6 Cash payments will, to the extent to which these have been made available for payment outside The Netherlands, be paid in the currency of the country in question, converted against the exchange rate of the Amsterdam Exchange (Euronext) at the end of the day prior to the day on which the resolution for payment is made. If and to the extent that the Company is unable to pay to the place designated outside The Netherlands on the first day on which the payment is available for payment, as a result of government measures or other extraordinary circumstances beyond its power, the Board of Directors is authorised to appoint one or more places in The Netherlands instead thereof.
- 17.12.7 The person, in whose name the share was issued, is entitled to dividends and other payments on shares on the date to be determined by the Board with respect to any payment for the share models to be distinguished. Such payment discharges the Company.
- 17.12.8 Notifications on payments and on dates and places as referred to in the above mentioned paragraph, are published in The Netherlands in at least one daily nationally circulated newspaper and abroad in at least one newspaper in each of such countries where the shares of the Company are quoted on an official stock exchange and in such other way as the Board deem desirable.
- 17.12.9 A claim for payment of a distribution lapses five years and two days after the date on which it first became payable.
- 17.13 *Amendment of Articles of Association*
- A resolution of the general meeting to amend the articles of association may be adopted by a single majority only if and when these resolutions are in conformity with the proposal of the Board. However, if and when these resolutions are not in conformity with the proposal of the Board relating thereto, then the general meeting can only adopt such resolutions by two

thirds of the votes cast representing more than one third of the issued capital. In this respect it is not possible to hold a new meeting, at which meeting the resolution may be adopted, irrespective of the part of the capital present or represented at such meeting. Notwithstanding the foregoing, the articles of association provide that following Admission the affirmative vote of seventy five per cent. of the voting power of all the then outstanding shares of the company shall be required to alter, amend or repeal the articles 6A, 13.A.1, 13.A.2, 13.A.3 and 39.1.A.

#### 17.14 *Liquidation*

A resolution to dissolve the Company may be adopted by the general meeting. In case of dissolution, any surplus remaining after payment of the debts will be paid to the shareholders in proportion to their individual nominal shareholdings. In case of dissolution of the Company, the members of the Board will be the liquidators, unless the general meeting appoints other persons to that effect.

#### 17.15 *Mandatory Takeover Bids*

The Company is incorporated in the Netherlands and, accordingly, transactions in the shares are not subject to the provisions of the UK City Code on Takeovers and Mergers.

The articles of association state that where control of the Company is acquired by a person, or persons acting in concert, a general offer to all other shareholders is required. A similar obligation arises if control is consolidated. "Control" for these purposes means a holding, or aggregate holdings, of Shares carrying 30 per cent. or more of the voting rights of a company, irrespective of whether the holding or holdings gives de facto control. "Voting rights" for these purposes means all the voting rights attributable to the share capital of the Company which are currently exercisable at the general meeting. A general offer will also be required where a person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights, acquires additional Shares which increase his percentage of the voting rights. The offer must be made to all other shareholders, be in cash (or have a cash alternative) and cannot be conditional on anything other than the securing of acceptances which will result in the offeror and persons acting in concert with him holding shares carrying more than 50 per cent. of the voting rights.

### 18. **Material contracts**

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group within the two years immediately preceding the date of the document and are, or may be, material:

18.1 the Placing Agreement, details of which are set out in paragraph 9 above;

18.2 In December 2003, the Company, Engel General Developers and Arces entered into a subscription and investment agreement with the Heitman Fund, whereby the Heitman Fund acquired shares of Arces constituting 50 per cent. of the outstanding share capital of Arces, for an aggregate amount of €7.75 million, of which €2 million were paid to Engel General Developers as a completion bonus, and the balance of €5.75 million was repaid to it on account of loans it provided to Arces prior to the investment by the Heitman Fund. In addition, the parties entered into a shareholders' agreement with regard to their relationship as shareholders of Arces. The Heitman Fund will invest additional amounts, on a quarterly basis, in accordance with the capital requirements of Arces for the development projects carried out by its subsidiaries in the CEE Region, up to an additional amount of €7.75 million (the "Preferred Investment"), subject to certain objective conditions relating to each project for which such funds are designated, such as obtaining external financing for the construction of such project.

In addition, it was agreed that should Arces require additional funding, such funding shall be provided by Engel General Developers and the Heitman Fund, in equal parts, by way of subscription for additional shares and/or by way of shareholders loans; provided however, that the Heitman Fund's total funding of Arces shall not exceed €18 million.

The agreements provide for certain compensation to which the Heitman Fund shall be entitled in certain events, such as in the event of certain delays in the commencement of any of the projects of Arces and its subsidiaries presented to the Heitman Fund prior to the agreement, or in the event that the number of apartments in such projects decreases substantially. In addition, the Heitman Fund may demand that a delayed project be sold, subject to a right of first refusal granted to Engel General Developers. In addition, subject to certain conditions Engel General Developers undertook to finance any development costs of projects that exceed the budget presented to the Heitman Fund. As of the date of this admission document, no demands for compensation or for sale of any projects were received from the Heitman Fund.

Based on the agreements with the Heitman Fund, subsidiaries of the Company are managing the projects of Arces' subsidiaries in return for management fees equal to 5 per cent. of the planning and construction costs of these projects.

The Heitman Fund has a preference to receive proceeds distributed by Arces until it is repaid an amount equal to an internal return rate of 15 per cent. on the Preferred Investment. Thereafter, the remaining amounts shall be used for repayment of any priority loans made by any of the parties, if any, and for distribution among the Heitman Fund and the Company, on a progressive basis, in a manner that the Company's share in such distribution can increase from 50 per cent. to 70 per cent., in accordance to the increase in the rate of return achieved by the Heitman Fund.

- 18.3 The ECG Trust ("ECG"), a trust formed under the laws of Alberta, Canada, of which the Company is the beneficiary of 95 per cent. of the rights, and an affiliate of Lehman Brothers Real Estate Partners ("Lehman"), each hold 50 per cent. of the rights in the Montreal Residential Holding Master Limited Partnership (the "Montreal LP").

The Montreal LP, through limited partnerships established in Ontario, Canada, acquired the rights in three corporations each owning a parcel of land, on which it intends to develop the Trianon Sur le Golf Project, the Le Parisien Project and the Le Chagall Project.

The Montreal LP is managed by two general partners, one affiliated with the Engel Group and the other with Lehman. Lehman has undertaken to provide approximately 80 per cent. of the funding required for the Montreal LP's operations, up to an aggregate amount of approximately CAD \$18 million, while ECG undertook to provide the balance of the required funding, up to an aggregate amount of approximately CAD \$4.5 million. In the event that a certain development project requires additional funds, and such funds are not available from any of the Montreal LP's sources or from external financiers, then partners may be requested to contribute up to 10 per cent. of the approved budget for such project, *pro rata* to their contribution percentage.

At the closing of the transaction, the Engel Group received a development fee from an affiliate of Lehman in the amount of CAD\$2 million.

A subsidiary of the Group is managing the projects of the Montreal LP in return for management fees equal to 4.5 per cent. of the total project costs.

Following payment of all costs, repayment of any external financing, and repayment of any loans from partners, if any, the Montreal LP shall make distributions in the following order: first repayment to partners that have contributed in excess of the maximum contribution required of them, of such excess amount plus an annual return rate of 20 per cent.; second, repayment to partners of their capital contribution amounts plus an annual return rate of 17 per cent.; and thereafter, to ECG in a percentage of between 45 per cent. and 55 per cent., depending on the level of returns received by Lehman, and the remainder to Lehman.

- 18.4 The Company's projects in Germany and Canada have previously been held by affiliated entities controlled by Engel General Developers, rather than by subsidiaries of the Company. On 6 December 2005 and 29 November 2005 respectively, the shares or beneficial rights, as the case may be, in the entities owning the land and the rights of said projects were acquired by the Company.

- 18.5 On 12 December 2002, the Company executed a preliminary purchase agreement with Raba Jarmuipari Holding Reszvenytársaság, pursuant to which the Company undertook to construct the residential development project, including buildings, utilities, roads and support networks on a property of approximately 430,000m<sup>2</sup> in the city of Győr, Hungary. The parties agreed that the seller's consideration would be a fixed percentage of the proceeds from the sales of the units constructed on the land. Following the legal subdivision of each stage of the development, a final purchase agreement is to be executed between the parties, transferring title to the property on which such stage is to be erected to the Company.
- 18.6 A controlling shareholder agreement dated 9 December 2005 between the Company, the Controlling Shareholder and Dawnay Day, in terms of which the Controlling Shareholder has undertaken, for so long as it (or any of its "Associates", which includes any director of the Controlling Shareholder) holds more than 30 per cent. of the Shares, to exercise its voting rights to procure (insofar as it is able) that, *inter alia*: (i) the Company is capable at all times of carrying on its business independently of the Controlling Shareholder and its Associates; (ii) all transactions between the Company and the Controlling Shareholder (and/or its Associates) are made at arm's length and on a normal commercial basis; and (iii) any disputes between the Company and the Controlling Shareholder and/or its Associates are referred to a committee comprising only Directors who are independent of the Controlling Shareholder. The deed also requires the Controlling Shareholder to exercise its voting rights to ensure that: (i) the number of authorised but unissued Shares does not exceed 35 per cent. of the number of authorised and issued Shares; and (ii) no non pre-emptive issues of Shares for cash are made by the Company in any twelve month period comprising more than 10 per cent. of the issued Shares, unless in both cases approved by a committee comprising only Directors who are independent of the Controlling Shareholder.
- 18.7 The subscription option deeds between the Company and each of KBC Peel Hunt and Dawnay Day, respectively, details of which are set out in paragraphs 6.9 and 6.10 above.
- 18.8 A nominated adviser agreement dated 9 December 2005 between the Company, the Directors and Dawnay Day pursuant to which Dawnay Day agrees to act as nominated adviser to the Company for the purposes of the AIM Rules, for a fee of £25,000 (plus VAT and expenses) per annum. Under this agreement, Dawnay Day will provide general advice to the Company and the Directors in relation to matters concerning the AIM Rules, requirements of the London Stock Exchange and other matters relevant to a company whose securities are traded on AIM and carry out the responsibilities of a nominated adviser as set out in the AIM Rules. The agreement also contains certain undertakings given by the Directors and the Company. The agreement is terminable without cause by either party on 30 days' written notice expiring on or after 12 months from the date of the agreement. In certain other circumstances, the agreement may be terminated on shorter notice.

## 19. CREST and Depository Interests

### 19.1 *CREST and Depository Interests*

The Shares are in dematerialised registered form. However, it is proposed that, with effect from Admission, Shares may be delivered, held and settled in CREST. Pursuant to a method approved by CRESTCo under which transactions in foreign securities may be settled through CREST, the Depository will issue dematerialised Depository Interests representing entitlements to Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST.

The Registrars will hold the Shares on trust for the DI holders and this trust relationship is documented in a deed poll executed by the Registrars, acting as depository in favour of the DI holders (the "Deed Poll").

The registrar agreement under which the Company has appointed the Registrar to provide the DI Services is summarised in paragraph 20.3 below.

The DIs will be created pursuant to and issued on the terms of the Deed Poll. Prospective holders of DIs should note that they will have no rights in respect of the underlying Shares or the DIs representing them against CRESTCo or its subsidiaries.

Shares will be transferred to an account for the depository to their nominated Custodian (the “Custodian”) and the depository will pass on to the holders of DIs any cash or other benefits received by it as holder of Shares. DI holders will also receive notices of meetings of holders of Shares and other notices issued by the Company to its Shareholders and received by the Registrars, acting as depository.

The DIs will have the same security code (ISIN) as the underlying Shares and will not require a separate application for admission to trading on AIM.

Participation in CREST is voluntary and Shareholders who wish to hold their Shares in dematerialised registered form may do so. They will not, however, then be able to settle their Shares through CREST and will have their holding recorded on the Company’s share register in The Netherlands.

Application has been made by the Registrars for the DIs, representing the Shares, to be admitted to CREST on Admission.

## 19.2 *Depository Interest – Terms of the Deed Poll*

Prospective subscribers for and purchasers of the Shares are referred to the Deed Poll available for inspection at the offices of Berwin Leighton Paisner LLP. In summary, the Deed Poll contains, among other things, provisions to the following effect which are binding on all holders of DIs.

19.2.1 The depository will hold (itself or through its nominated Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the relevant DIs.

19.2.2 Holders of DIs warrant, among other things, that the securities in the Company transferred or issued to the Custodian on behalf of the depository are free and clear from all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company’s articles of association nor any relevant contractual obligation, law or regulation.

19.2.3 The depository (or its Custodian) must pass on to DI holders and exercise on behalf of DI holders all rights and entitlements received or to which they are entitled in respect of the underlying securities which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received together with any amendments and additional documentation necessary to effect such passing-on or, as the case may be, exercised in accordance with the Deed Poll.

19.2.4 The Deed Poll contains provisions excluding and limiting the depository’s liability. For example, the depository shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence, wilful default or fraud or that of any person for whom it is vicariously liable, provided that the depository shall not be liable for the negligence, wilful default or fraud or that of any person for whom it is vicariously liable, provided that the depository shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use of such Custodian or agent. Furthermore, the depository’s liability to a holder of DIs will be limited to the lesser of (a) the value of the Shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that the proportion of £5,000,000 which corresponds to the portion which the amount the depository would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the depository would otherwise be liable to pay to all such holders in respect of the same act, omission or event or, if there are no such amounts, £5,000,000.

- 19.2.5 The depository is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll. The depository shall not be liable for taxes, duties, charges, costs or expenses which may become payable in respect of the Shares or other deposited property or the DIs.
- 19.2.6 If each holder of DIs is liable to indemnify the depository and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the depository, or the Custodian, or if the depository shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent and in certain other circumstances.
- 19.2.7 The depository may terminate the Deed Poll by giving 30 days' notice to the DI holders. During such period, holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the depository must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion, sell all or part of such deposited property and request for removal of the DIs from CREST. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to it, together with any other cash held by it under the Deed Poll, pro rata to holders of DIs in respect of their DIs.
- 19.2.8 The depository or the Custodian may require from any holder information as to the capacity in which DIs are owned or held and the identity of any other person with any interest of any kind in such DIs or the underlying Shares and the holders are bound to provide such information requested. Furthermore, to the extent that, among other things, the Company's articles of association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever, in the Company's securities, the holders of DIs are to comply with such provisions and with the Company's instructions with respect thereto.

### 19.3 *Depository Interests – Terms of branch registrar agreement*

The terms of the branch registrar agreement dated 9 December 2005 between the Company and the Registrar (the "Registrar Agreement") under which the Company appoints the Registrar to maintain the Company's register in Jersey and provide certain other services as are summarised below.

The Registrar will perform various services in its capacity as Registrar, including maintenance of the register in Jersey; maintenance of dividend instruction records; certification and registration of share transfers; preparation and despatch of dividend warrants; supplying to the Company, as soon as reasonably practicable, all necessary information so that the register be open for inspection at the registered office of the Company; and arranging for the provision of facilities for the holding of general meetings including the distribution of ballot papers in the event of a poll, and the provision of scrutineers of any vote, if required.

For the provision of its services, the Company will pay the Registrar an annual fee of £3,500, plus out-of-pocket expenses, in addition to other related expenses. The agreement can be terminated by either party on the giving of six months' written notice or at any time if either party commits a material breach of its obligations.

The Registrar shall not be liable to the Company for any loss sustained by the Company for whatever reason provided that the Registrar shall remain liable for any loss arising as a result of fraud, negligence or wilful default by the Registrar.

## 20. Share option plan

A summary of the Share Option Scheme is set out below:

### 20.1 *Adoption*

On 9 December 2005 the Company adopted the Share Option Scheme. No options have been granted under the Share Option Scheme.

### 20.2 *Administration*

The Board shall have the power to administer the Share Option Scheme. However, to the extent permitted under applicable law, the Board may delegate its powers under the Share Option Scheme, or any part thereof, to a share option compensation committee of the Board (the "Option Committee").

The Board or the Option Committee, as the case may be, shall have full power and authority to:

20.2.1 designate eligible grantees;

20.2.2 determine the terms and provisions of respective option agreements (which need not be identical), including the number of options to be granted to each eligible grantee, provisions concerning the time or times when and the extent to which the options may be exercised and the nature and duration of restrictions as to transferability;

20.2.3 accelerate the right of an option holder to exercise the granted options, in whole or in part;

20.2.4 interpret the provisions and supervise the administration of the Share Option Scheme;

20.2.5 determine the purchase price of the shares underlying an option; and

20.2.6 determine any other matter which is necessary or desirable for, or incidental to, the administration of the Share Option Scheme.

### 20.3 *Eligibility*

All employees, directors, executive officers, consultants and advisors of the Company or an affiliate of the Company, where such consultants or advisors are affiliated to employees, directors and/or executive officers of the Company, are eligible to participate in the Share Option Scheme.

### 20.4 *Limits*

The Company has reserved 4,380,000 authorised but unissued Shares, representing approximately 5 per cent. of the Company's issued and outstanding share capital, for the purposes of the Share Option Scheme. Until termination of the Share Option Scheme, the Company shall at all times reserve a sufficient number of Shares to meet the requirements of the Share Option Scheme.

### 20.5 *Grant of options*

The Board may grant options under the Share Option Scheme to any person who is eligible to be granted options in accordance with the Share Option Scheme. A written agreement between the Company and a grantee shall evidence each option granted pursuant to the Share Option Scheme, in such form as the Board shall from time to time approve. Each such agreement shall state, inter alia, the number of Shares to which the option relates, the vesting dates of the option, the purchase price per Share and the expiration date of the option.

### 20.6 *Exercise of options and price*

An option may be exercised, in whole or in part, by written notice delivered to the Company, or to a representative designated by the Company, specifying the number of shares with respect to which the option is being exercised. The price payable for each Share subject to an option shall be determined by the Board in its sole and absolute discretion in accordance with applicable law, subject to any guidelines as may be determined by the Board from time to time.

## 20.7 *Change of control*

In the event of a merger, acquisition or reorganisation of the Company with one or more other entities in which the Company is not the surviving entity, or in the event of a sale of all or substantially all of the assets or shares of the Company to another entity, then the unexercised options then outstanding under the Share Option Scheme shall be assumed or substituted for an appropriate number of shares of each class of shares or other securities of the successor company or a parent or subsidiary of the successor company as were distributed to the shareholders of the Company in connection and with respect to such transaction. In such an event, appropriate adjustments shall be made to the price of the options so as to reflect such action. All other terms and conditions of the option agreements shall remain unchanged, subject to the determination of the Board. Notwithstanding the foregoing and subject to all applicable law, the Board shall have the power and authority to determine that in certain option agreements there shall be a clause instructing that if the successor company (or parent or subsidiary of the successor company) does not agree to assume or substitute the options, the vesting dates of outstanding options shall be accelerated so that any unvested option or any portion thereof shall be immediately vested as of the date which is ten days prior to the effective date of such a transaction.

## 20.8 *Liquidation*

If the Company is voluntarily liquidated or dissolved while unexercised options remain outstanding under the Share Option Scheme, the Company shall immediately notify all unexercised option holders of such liquidation, and the option holders shall then have ten days to exercise any unexercised vested option held by them at that time. Upon the expiration of the ten-day period, all remaining outstanding options will terminate.

## 20.9 *Adjustment of options*

If the outstanding Shares shall at any time be changed or exchanged by declaration of a share dividend (bonus shares), share split or reverse share split, combination or exchange of shares, recapitalisation, or any other like event by or of the Company, the number, class, price and kind of the Shares subject to the Share Option Scheme or subject to any options theretofore granted shall be adjusted so as to maintain the proportionate number of Shares without changing the aggregate price. However, no adjustment shall be made by reason of the distribution of subscription rights (rights offering) on outstanding Shares. Upon the occurrence of any of the foregoing, the class and aggregate number of Shares issuable pursuant to the Share Option Scheme, in respect of which options have not yet been exercised, shall be appropriately adjusted, as determined by the Board.

## 20.10 *Exercise of options*

Options will normally be exercisable in whole or in part at any time between the vesting dates specified at the time of grant and the tenth anniversary of the date on which the option was granted and will otherwise lapse, or on such other date specified at the time of grant. All options granted to an option holder shall expire immediately in the event of the termination of such options holder's employment of service. Notwithstanding the foregoing, if an option holder is terminated by the Company without cause, he may exercise any vested options in the three months after termination of his employment or, in the case of his death or disability, twelve months thereafter. The Board may also, prior to the date of termination, authorise an extension of the term of all or part of the vested options beyond the date of such termination for a period not to exceed the period during which the options by their terms would otherwise have been exercisable.

## 20.11 *Tax*

Any tax consequences arising from the grant or exercise of any option, from the payment for shares covered thereby or from any other event or act of the Company or its affiliates under the Share Option Scheme must be borne solely by the option holder.



## 20.12 *Amendment and termination*

The Share Option Scheme expires on 9 December 2015. The Board may amend, alter, suspend or terminate the Share Option Scheme. However, the Board may not extend the term of the Share Option Scheme and no amendment, alteration, suspension or termination of the Share Option Scheme may adversely affect any award previously granted, unless the written consent of the grantee is obtained.

## 20.13 *Assignment*

No option or any right with respect thereto shall be assignable, transferable, or given as collateral other than by will or by the laws of descent and distribution or as specifically otherwise allowed under the Share Option Scheme or a specific option agreement.

## 21. **Taxation**

The following statements are intended only as a general guide to the main UK tax consequences which will apply to shareholders of the Company who are either resident and ordinarily resident individuals or companies in the UK, who are beneficial owners of Shares and who hold their Shares as an investment. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders and is based on current law and practice. **Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than the UK, should consult his or her professional advisers immediately.**

On issue, the Placing Shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM), the Placing Shares should continue to be treated as unquoted securities.

### 21.1 *Dividends*

The rate of withholding tax imposed on dividends distributed by the Company is 25 per cent. of the gross amount of the dividend. Dividends include but are not limited to:

- (a) direct or indirect distributions of profit, under any name or any form whatsoever, including proceeds from a share buy back by the Company to the extent these proceeds exceed the average paid-in capital of those shares;
- (b) liquidation distributions to the extent they exceed the average paid-in capital;
- (c) the par value of shares issued to a shareholders or an increase of the par value of shares, as the case may be, to the extent that capital will not be contributed; and
- (d) certain repayments of capital.

Shareholders that are resident in a tax treaty jurisdiction and that are the beneficial owners of dividends distributed by the Company may be eligible for a lower rate of withholding of generally 15 per cent.; subject to the specific terms and conditions of the applicable tax treaty.

Certain corporate investors may be eligible for an exemption of withholding tax under the applicable Dutch legislation implementing EU taxation directives.

The Company will not be obliged to make any withholding on account of UK tax on payment of any dividends. UK resident individuals who are domiciled in the UK will be liable to UK income tax on the gross dividend paid by the Company. However, relief may be available for the Dutch withholding tax, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. UK resident individuals who are not domiciled in the UK will generally be subject to UK income tax if the dividend is remitted to the UK.

The dividend receipt will be regarded as the top slice of the individual’s income and will be subject to UK income tax at the rates set out below.

Individual shareholders, who are liable to income tax at no more than the basic rate, will be subject to income tax on the dividend income received at the rate of 10 per cent. of the gross dividend. The rate of income tax applying to dividends received by an individual shareholder liable to income tax at the higher rate will be subject to income tax at the rate of 32.5 per cent. of the gross dividend.

A UK resident company will, where double tax relief is claimed, be liable to UK tax on the gross dividend paid by the Company, subject to credit for the Dutch withholding tax deducted at source. A UK resident company may, if certain shareholding requirements are satisfied, seek relief for underlying tax (borne by the Company and its subsidiaries on the profits out of which the dividend is paid) associated with the dividend. As credit for overseas tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK Double Taxation regulations, be entitled to claim credit for excess unrelieved foreign tax against dividends received from certain other sources.

#### 21.2 *Netherlands income tax and capital gains tax*

An investor will not be subject to Dutch income tax or capital gains tax in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of the Shares, unless:

- (i) the investor owns or is deemed to own a “substantial interest” in the Company which does not belong to the assets of an active trade or business conducted by the investor; or
- (ii) if the investor is a corporation, the investor is entitled to a share in the profit or is jointly entitled to the equity of an enterprise that has its place of management in The Netherlands and to which enterprise the Shares are attributable, unless such profit share or joint entitlement arises out of the holding of securities; or
- (iii) if the investor is an individual, he is entitled to a share in the profit of an enterprise that has its place of management in The Netherlands and to which enterprise the Shares are attributable, unless such profit share arises out of employment or the holding of securities; or
- (iv) if the investor is an individual, the income or gain forms income derived from employment in The Netherlands or deemed employment or qualifies as income from miscellaneous activities in The Netherlands (“*belastbaar resultaat uit overige werkzaamheid*”) as defined in the Income Tax Act 2001.

An individual is considered as having a “substantial interest” in the Company if such individual alone or together with his spouse or partner, as the case may be, directly or indirectly, owns or under certain circumstances has owned, or has certain other rights over (including but not limited to rights to acquire), shares constituting 5 per cent. or more of the Company’s aggregate issued share capital or, if the Company has several classes of shares, of the issued share capital of any class of shares or, if the Company has issued profit certificates, of profit certificates entitling him to at least five per cent. of the annual profit or to at least 5 per cent. of the liquidation proceeds. An individual is considered as having a “deemed substantial interest” in the Company if such individual does not have a substantial interest as described in the preceding sentence, but a spouse, partner or other defined close relative of such individual has such a substantial interest.

Certain less than 5 per cent. direct shareholdings may be deemed a substantial interest.

A corporation (or a deemed corporation) is considered as having a substantial interest in the Company if it, directly or indirectly, owns or has certain other rights over (including but not limited to rights to acquire), shares constituting 5 per cent. or more of the Company’s aggregate issued share capital or, if the Company has several classes of shares, of the issued share capital of any class of shares or, if the Company has issued profit certificates, of profit certificates entitling him to at least 5 per cent. of the annual profit or to at least 5 per cent. of the liquidation proceeds. Certain less than 5 per cent. direct shareholdings may be deemed a substantial interest.

When the investor does own or is deemed to own a substantial interest in the Company, capital gains and dividends may be subject to 25 per cent. (individuals) or 31.5 per cent. (corporations) income tax in The Netherlands, subject to the application of an applicable tax treaty.

### 21.3 *Chargeable gains in UK*

An individual who is resident and ordinarily resident in the UK for tax purposes shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to any available exemptions or reliefs.

An individual who is resident and ordinarily resident in the United Kingdom for tax purposes but not domiciled in the United Kingdom for tax purposes will be liable to UK capital gains tax only to the extent that chargeable gains made on the disposal of shares are remitted or deemed to be remitted to the United Kingdom.

If an individual ceases to be resident or ordinarily resident in the UK and subsequently disposes of shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that shareholder becoming once again resident or ordinarily resident in the UK.

Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income. For disposals after 5 April 1998, "taper relief" was introduced which applies to UK resident individual investors and UK resident trustees (but not companies). Taper relief reduces the chargeable gain assessable to capital gains tax in relation to the period the shares are held and the amount of the relief is dependent on whether the shares of the Company are considered to be a "business" or "non-business" asset. The amount of the relief available for "business" assets is higher than that for "non-business" assets. Business assets currently include shares in qualifying unquoted trading purposes. For these purposes, companies admitted to trading on AIM are regarded as unquoted.

UK resident companies making a disposal of shares in the Company will be liable to corporation tax in respect of chargeable gains arising on such disposal, subject to the availability of an allowance for inflation and the substantial shareholdings exemption.

### 21.4 *Dutch gift, estate or inheritance taxes*

No gift, estate or inheritance taxes will arise in The Netherlands in respect of the transfer or deemed transfer of Shares by way of a gift by, or on the death of, a holder of a Share who is not a resident or deemed resident of The Netherlands, provided that (i) such Shares are not attributable to an enterprise, owned by the donor or the deceased or in which the donor or the deceased has, at the time of the gift, or had, at the time of his death or, within one year prior to his death, an interest and that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, and (ii) such Shares are not attributable to an enterprise that has, at the time of the gift, or had, at the time of his death or, within one year prior to his death, its place of management in The Netherlands and in which the donor or deceased has or had a share in the profits of that enterprise unless such share arises out of employment or securities; (iii) in the case of a gift of Shares by an individual owner who at the date of the gift was neither resident nor deemed resident of The Netherlands, such individual holder does not die within 180 days after the date of gift, while being a resident or deemed resident of The Netherlands.

### 21.5 *Stamp duty and stamp duty reserve tax ("SDRT")*

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or to persons connected with depository arrangements or clearance services, who may be liable at a higher rate.

The allocation and issue of Placing Shares will not generally give rise to a liability to stamp duty or SDRT.

Stamp duty, at 0.5 per cent., will arise on the transfer of Shares if the document of transfer is executed in the UK or in connection with any “matter or thing” to be done in the UK. The term “matter or thing” is very wide and can include paying consideration out of a UK bank account.

If the Company maintains a share register in the UK, UK SDRT will be chargeable (at 0.5 per cent. of the purchase price) on any agreement to transfer Shares on that UK register.

UK stamp duty at a fixed rate of £5 per transfer will be payable where an investor wishes to deposit the Shares with the depository in order that DIs will be issued under the depository interest arrangements outlined in paragraph 19.2, Part VII of this admission document.

UK stamp duty reserve tax (at 0.5 per cent. of the purchase price) will be chargeable in respect of an agreement to sell DIs representing the Shares unless central management and control of the Company is exercised outside of the UK, the Shares deposited are not registered in the UK and these Shares are of the same class in the Company as securities which are listed on a recognised stock exchange.

Where an SDRT charge arises, payment of stamp duty within six years of the date of an agreement on a transfer executed before any electronic transfer or legal title, for example through the CREST system in the UK, pursuant to the agreement will generally cancel the charge to stamp duty reserve tax.

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

## **22. Working capital**

The Directors are of the opinion (having made due and careful enquiry) that, after taking into account the financing facilities available and the net proceeds of the Placing, the Group has sufficient working capital for its present requirements, that is, for at least the period of 12 months from Admission.

## **23. Environmental issues**

There are no environmental issues that may affect the Company’s utilisation of the tangible fixed assets.

## **24. Miscellaneous**

24.1 The total proceeds of the Placing to be received by the Company are expected to be £30 million. The total costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 9 above) payable by the Company are estimated to amount to approximately £3.3 million (excluding VAT). The total net proceeds of the Placing will be £26.7 million.

24.2 In the opinion of the Directors, the minimum amount which must be raised by the allotment of Shares pursuant to the Placing is as follows:

24.2.1 Costs and expenses payable under the Placing £3.3 million

24.2.2 For the purposes set out in paragraph 10 of Part II of this document  
and for working capital £26.7 million

24.3 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the Placing Shares, other than as contained in this document. 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. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.

- 24.4 Deloitte & Touche LLP has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of its report and the references to the report and to its name in the form and in the context in which they are included. Deloitte & Touche LLP has no material interest in the Company.
- 24.5 Dawnay Day is registered in England and Wales under number 01154048 and its registered office is at 17 Grosvenor Gardens, London SW1W 0BD, United Kingdom. Dawnay Day is authorised and regulated by the Financial Services Authority and is acting in the capacity as nominated adviser to the Company.
- 24.6 Dawnay Day, Bradmore King Sturge and KBC Peel Hunt have given and have not withdrawn their written consent to the issue of this document with the inclusion of their names and references to them in the form and context in which they appear.
- 24.7 Where information in this document has been sourced from a third party, it has been accurately reproduced and, as far as the Company is aware and is able to ascertain from the information published by the third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 24.8 Save as otherwise disclosed in this document:
- 24.8.1 there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability; and
- 24.8.2 there have been no interruptions in the Group's business in the 12 months preceding the date of this document which may have or had a significant effect in the Group's financial positions.
- 24.9 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 24.9.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission other than in the Company's ordinary course of business; or
- 24.9.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission other than in the Company's ordinary course of business any of the following:
- 24.9.2.1 fees totalling £10,000 or more;
- 24.9.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- 24.9.2.3 any other benefit with a value of £10,000 or more at the date of Admission.
- 24.10 27,777,778 Shares are to be allotted and issued pursuant to the Placing and the Company will apply for the Shares to be admitted to trading on AIM. The ISIN (International Security Number) of the Shares and DIs is NL0000051043.
- 24.11 The principal legislation under which the Shares have been created is Book 2 of the DCC.
- 24.12 The Placing Shares, when paid up, will only be available in uncertificated form as registered shares or DIs and settled on CREST as DIs. The records in respect of all shares and DIs will be maintained by the Registrar.

- 24.13 The Placing Shares will rank in full for all dividends and other distributions declared, made or paid after the date of their issue and otherwise *pari passu* in all respects with the existing Shares. A description of the rights attached to the shares, including transferability, is set out in paragraph 17 of this Part VII. The Placing Shares are denominated in Euros with the Placing Price in sterling.
- 24.14 It is expected that the Shares will be issued on 15 December 2005 and CREST accounts will be credited by 15 December 2005.
- 24.15 For a description of mandatory takeover bids and squeeze-out and sell-out rules in relation to the shares see Part VIII of this document.
- 24.16 There have been no public takeover bids by third parties in respect of the Company's shares, which have occurred during the last financial year and the current financial year.
- 24.17 The Placing Price of 108 pence per Placing Share is at a premium of approximately 107 pence for each Placing Share above the nominal value of each Placing Share.
- 24.18 The financial information relating to the Company contained in this Admission Document does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. Where required, statutory audited accounts of the Company and its subsidiaries relating to each financial period to which the financial information relates have been delivered to the relevant Dutch Chamber of Commerce.
- 24.19 There is no Director or member of a Director's family who has a related financial product referenced to the Shares.
- 24.20 Other than the current application for Admission, the Shares have not been admitted to dealings on any recognised investment exchange nor has any application for admission been made nor are there intended to be any other arrangements for there to be dealings in the Shares.
- 24.21 Save as set out in this document, there are no undertakings in which the Company has a proportion of the capital which are likely to have a significant effect on the assessment of the Company's assets and liabilities, financial position or profits and losses.

## **25. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA up to and including 15 January 2006:

- 25.1 the articles of association of the Company;
- 25.2 the rules of the Share Option Scheme;
- 25.3 the service agreements and letters of appointment referred to in paragraph 12.1 above;
- 25.4 the letters of consent referred to in paragraphs 24.4 and 24.6 above;
- 25.5 the Deed Poll referred to in paragraph 19 above; and
- 25.6 this document.

Dated 9 December 2005

## PART VIII

### Summary of Applicable Dutch Company Law

#### Potential Mandatory Offer Rules

The directive of the European Parliament and of the Council of the European Union (the “Council”) on take-over bids (the “Take-Over Directive”) was adopted by the Council on 30 March 2004 and became effective on 20 May 2004. The Directive applies to all companies governed by the laws of a European Union member state of which all or some securities are admitted to trading on a regulated market in one or more member states.

Pursuant to the Directive, a person holding securities in such company, which when added to any existing holdings and the holdings of persons acting in concert with him, directly or indirectly give him the control over that company, is required to make a public offer to all the holders of those securities for all their holdings at an equitable price. The laws of the member state in which the company has its registered office will determine what percentage of the voting rights in that company is regarded conferring control over the company and the method of calculation of such percentage. It is currently not clear at what percentage of voting rights Dutch law will require that a public offer be made.

#### Dutch Squeeze-Out Proceedings

If a person or company or group of companies (the “Controlling Entity”) hold in total 95 per cent. of the Company’s issued share capital by nominal value for their own account, Dutch law permits the Controlling Entity to acquire the remaining shares in the Company by initiating proceedings against the holders of the remaining shares. The price to be paid for such remaining shares will be determined by the Enterprise Section (Ondernemingskamer) of the Amsterdam Court of Appeal.

A shareholder who holds less than 95 per cent. of the shares, but in practice controls the Company’s general meeting of shareholders, could attempt through a legal merger with another company or by subscribing to additional shares in the company (for example in exchange for a contribution of part of its own business) to raise its interest to 95 per cent.

#### Important shareholders resolutions to be approved by shareholders.

Resolutions of the Board of Directors leading to an important change in the identity or character of the Company will require the approval of the general meeting. This applies to resolutions in respect of:

- (a) the transfer of most or all of the business;
- (b) the entry into or termination of any long-term co-operation arrangement (including joint ventures);
- (c) the acquisition or disposal of participations with a value of at least one third of the balance sheet total as per the most recently adopted annual accounts.

#### Remuneration policy for the members of the Board of Directors

It is a statutory requirement under Dutch law that the Company establishes a policy in respect of the remuneration of the members of the Board of Directors. This policy must be adopted by the General Meeting. The policy will include all aspects of remuneration (including bonuses, stock options, and severance payments).

Option and share plans for members of the Board of Directors must be approved by the General Meeting. The plan must contain a maximum limit on the number of shares and options that may be granted to members of the Board of Directors and must include all applicable criteria.

#### Right of putting items on agenda of General Meeting

Persons holding 1 per cent. of issued share capital (either shares or DIs) or holding shares (or DIs) representing a market value of at least EUR 50 million have the right to put items on the agenda for a General Meeting, on the condition that the Company has received the request not later than the

thirtieth day prior to the day of the meeting. The Board of Directors may refuse such request to put an item on the agenda if this would prejudice the vital interest of the Company.

### **Significant Ownership of Shares**

Holders of shares or DIs in the Company may be subject to reporting obligations under the Dutch 1996 Act on Disclosure of Holdings in Listed Companies (Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996) (the “Disclosure Act”) and the Dutch 1995 Act on the Supervision of the Securities Trade (Wet Toezicht Effectenverkeer 1995) (the “Dutch Securities Act”).

Pursuant to the Disclosure Act, any person who holds an interest in the capital or voting rights of the Company at the time of the DI’s being admitted to listing at the London Stock Exchange (AIM), must give written notice to the Company and, by means of a standard form, to The Netherlands Authority for Financial Markets (“AFM”) within four (4) weeks of the DI’s being admitted to listing, unless such person holds less than 5.0 per cent. in the share capital or the voting rights of the Company.

In addition, any person who, directly or indirectly, acquires or disposes of an interest in the share capital or voting rights of the Company must immediately report in writing to the Company and, by means of a standard form, to the AFM, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such persons falls within a different percentage range as compared with the percentage range applicable to the capital or voting rights held by such person prior to the acquisition or disposal. The percentage ranges referred to in the Disclosure Act are:

0 per cent. – 5.0 per cent.

5.0 per cent. – 10.0 per cent.

10.0 per cent. – 25.0 per cent.

25.0 per cent. – 50.0 per cent.

50.0 per cent. – 66⅔ per cent.

66⅔ per cent. or more

On 3 July 2003, a draft bill to amend the Disclosure Act was submitted to the Dutch Parliament. According to the explanatory notes on the proposed bill, it is anticipated that the following percentage ranges will be introduced: 0.00 per cent. – 5.0 per cent., 5.0 per cent. – 10.0 per cent., 10.0 per cent. – 15.0 per cent., 15.0 per cent. – 20.0 per cent., 20.0 per cent. – 25.0 per cent. and 25.0 per cent. or more. Under the proposed bill, all direct or indirect transactions above 25 per cent. of share capital or voting rights must be reported.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must be taken into account:

(1) ordinary shares (or DIs) directly held (or acquired or disposed of) by any person; (2) ordinary shares (or DI’s) held (or acquired or disposed of) by such person’s subsidiaries or by a third party for such person’s account or a third party with whom such person has concluded an oral or written voting agreement; (3) ordinary shares (or DIs) which such person or subsidiary or third party as referred to above may acquire pursuant to any option or other right held by such person.

Special rules apply to the attribution of ordinary shares (or DIs) which are part of the property of a partnership or other joint ownership.

A holder of a pledge or right of usufruct on ordinary shares (or DIs) can also be subject to reporting obligations, if such person has, or can acquire, the right to vote on the ordinary shares. The acquisition of (conditional) voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if such pledgee or beneficial owner were the legal holder of the ordinary shares (or DIs).

### **Market Abuse**

Pursuant to section 47a of the Dutch Securities Act, persons who: (a) determine the day-to-day policy of the Company, (b) supervise the day-to-day policy of the Company, (c) have a key function in the Company which enables them to take decisions related to the future developments and



business prospects of the Company and therefore have often knowledge of inside information and (d) are designated in a regulation promulgated under the Dutch Securities Act (“Related Persons”), should, ultimately on the fifth business day after the date of the transaction, report to the Company or the AFM, securities transactions with respect to the Company, carried out or caused to be carried out for their own account. The notification may be postponed until the moment the value of the aggregated transactions exceeds five thousand euro (EUR 5,000) whereby transactions, carried out for the account of Related Persons should be added to the value of the transactions carried out by persons mentioned under (a), (b) and (c) above.

### **Register and sanctions**

The AFM keeps a register of all notifications made pursuant to the Disclosure Act and the Dutch Securities Act, which register is for public inspection. The register does not contain information about the addresses of the natural persons who made the notification.

Non-compliance with the reporting obligations under the Disclosure Act and the Dutch Securities Act constitute an economic offence under the Dutch Economic Offence Act. Non-compliance may be punished with criminal fines, administrative fines, imprisonment and other sanctions. In addition, non-compliance with the reporting obligations under the Disclosure Act, may lead to civil sanctions, including (i) a general suspension of voting rights in respect of ordinary shares (or DIs) for a period up to three years and/or (ii) a court order prohibiting a person from (acquiring or) exercising voting rights in respect of ordinary shares (or DIs) for a period up to five years.





