

IMJSC "Parex Asset Management"
Republikas square 2a,
Riga, LV 1010, Latvia

Closed-end investment fund

"Parex Baltic Real Estate Fund - II"

PROSPECTUS

The Fund is registered in the Republic of Latvia

Registered with the Financial and Capital Market Commission
The Fund was registered on 07.04.2006.
with the registration number 06.03.05.098/23
Operating duration: 5 years

Amendments to the Prospectus:
Registered on June 14, 2006, effective as of July 17, 2006
Registered on October 10, 2006, effective as of November 13, 2006
Registered on June 09, 2008, effective as of July 11, 2008
Registered on October 14, 2008, effective as of October 14, 2008
Registered on March 5, 2009, effective as of March 17, 2009
Registered on March 25, 2009, effective as of March 25, 2009
Registered on July 14, 2009, effective as of July 14, 2009
Registered on October 05, 2009, effective as of October 05, 2009
Registered on Jaunuary 29, 2010, effective as of January 29, 2010

Custodian:	JSC "Parex banka"
Sworn Auditor:	SIA "PricewaterhouseCoopers"

The Prospectus, the Fund Rules, the annual and semi-annual reports of the Fund as well as other information on the Fund and the Company is available free of charge at the office of the IMJSC "Parex Asset Management" at the following address:

Republikas square 2a, Riga, LV 1010, Latvia
on business days from 10:00 to 18:00

Distributor of Investment Certificates:

JSC "Parex banka"
Republikas square 2a, Riga, LV-1522, Latvia
as well as branches and customer service units of the JSC "Parex banka".

The Financial and Capital Market Commission is not responsible for information stated in the Prospectus of the Fund, and the fact of registration does not express the opinion of the Financial and Capital Market Commission regarding the publicly issued securities.

IMPORTANT INFORMATION

"Parex Baltic Real Estate Fund - II" is a closed-end investment fund. The activities of the IMJSC "Parex Asset Management", which manages assets of this fund, are regulated by the Republic of Latvia laws. The activities of the Fund and the investment management company are regulated by the "Law on Investment Management Companies".

Investment Certificates of the Fund are distributed in accordance with this Prospectus and documents referred to in this Prospectus.

Prevention of money laundering. According to the Republic of Latvia law, the Company or the Distributor has the right to request that Investors submit documents confirming their identity or copies of such documents duly approved by a notary.

Where the investor refuses to submit to the Company the required documents, the Company has the right to reject the application for investment certificates without explanation. Further information about such requirements is available at the Company.

Data protection. The Investor (natural person) agrees that the Company, the Custodian, or the Distributor processes personal data about the Investor. That includes also requesting and receiving Investor's personal data from any third persons and databases established in accordance with procedure prescribed in the Republic of Latvia law, where the Company, the Custodian, or the Distributor deems it necessary for ensuring compliance with the requirements prescribed by the Republic of Latvia law, for establishing legal relationship between the Investor and the Company, the Custodian, or the Distributor, or for meeting obligations.

Distribution of the Fund's investment certificates. The Fund's shares shall not be distributed in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution. Thus, this Prospectus shall not be regarded as a public offer or an advertisement in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution.

Investment certificates of "Parex Baltic Real Estate Fund - II" are quoted on the investment fund list of the OMX Riga Stock Exchange.

Risk note

Despite the fact that the Company operates in accordance with the principles of diversification, general risks related to activities of investment companies remain. Investors should be aware that specific investment strategy aimed at investments in real estate and implementation of real estate projects in the Baltic region is subject to particular risks, especially, liquidity risk, legal risk, information risk and political risk. Investors should carefully study the information on risks contained in this Prospectus. Prior to making investments, Investors without relevant experience should consult an independent financial adviser to make an informed decision on the offered fund's investment strategy and to ensure that the fund's strategy, including potential risk, is appropriate for the investor's financial condition.

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DEFINITION OF ABBREVIATIONS AND TERMS USED IN THE PROSPECTUS

JSC "Parex banka" and/or the Custodian
The custodian of the closed-end investment fund "Parex Baltic Real Estate Fund - II".

JSC Joint stock company operating under the Latvian law.

Repurchase
Repayment of the value of investment certificates by the Company to the Investor with compensation for losses (where the Company is responsible for errors or omissions in information stated in the Prospectus).

Baltic countries
For the purposes of this Prospectus the Baltic countries are Latvia, Lithuania and Estonia.

Member Country
A member country of the European Union or the European Economic Area.

EEA European Economic Area.

EU The European Union.

EUR Euro - currency unit of the European Monetary Union.

Financial Instruments
Agreements that simultaneously give rise to financial assets for one person and financial liabilities or equity securities for another person. The definition of **Financial Assets** in this Prospectus shall be construed in accordance with International Accounting Standards 39 and 32.

Fund Manager
The Investment Committee, appointed by the Executive Board of the Company, to perform functions of the Fund Manager, observing provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund and in accordance with procedures prescribed by current normative acts of the Republic of Latvia and the Fund Rules.

Fund
The closed-end investment fund "Parex Baltic Real Estate Fund - II" founded by the IMJSC "Parex Asset Management", also in Latvian called "Parex Baltijas Nekustamā Īpašuma fonds - II".

Fund's Share
Fund's share represents the right of claim attached to one investment certificate in proportion to the value of such share. **The Fund's share value** is the fund's net asset value divided by the number of investment certificates in circulation.

Investor
A person who has invested money in the investment fund.

Investment Certificate
A transferable security that represents investor's interest in the investment fund and rights attached to such interest.

Equity securities
Securities representing ownership interest in issuer's capital (e.g., stocks and similar securities).

Account Holder
A legal person entitled to open, hold and close financial instruments accounts in accordance with the Law "On the Financial Instruments Market" and regulations of the Latvian Central Depository or a legal person which can ensure keeping of financial instruments in the LCD through inter-bank or central depository correspondent relations.

Latvian Central Depository and/or LCD
A joint stock company which performs booking and accounting of financial instruments issued in public circulation in the Republic of Latvia and provides for financial instrument and cash settlements in transactions with financial instruments on the regulated market as well as financial instrument settlements among financial instruments account holders.

RL The Republic of Latvia

Money Market Instruments
Highly liquid short-term debt securities whose value can be determined at any time (treasury bills, certificates of deposit, commercial paper etc.) usually traded on the money market.

OECD Organisation for Economic Co-operation and Development.

Base Currency
The currency in which the Fund's net asset value and the Fund's share value is expressed. The base currency for the closed-end investment fund "Parex Baltic Real Estate Fund - II" is euro (EUR).

Debt securities
Securities representing issuer's liability to repay the debt to the holder of such security (e.g., bonds, promissory notes etc.)

Transferable securities
Securities with unrestricted rights to transfer them.

Publicly Available Information

Detailed information about the Fund, the Company and the Custodian available, pursuant to the normative acts of the Republic of Latvia, to all Investors. Publicly available information comprises: the Prospectus, the Fund rules, annual and semi-annual report, time and places of distribution of the Investment certificates, the Fund's total value and the Fund's share value, sales and redemption prices for Investment certificates, information about the Company, information about the Custodian.

OMX Riga Stock Exchange
A joint stock company that organises public and regular closing of public circulation securities transactions in the Republic of Latvia.

Company
IMJSC "Parex Asset Management".

Company's Interested Persons
Members of the Council and officers of the investment management company, shareholders who own 10 and more percent of the Company's voting shares, as well as spouses, parents or children of such persons.

Closed-end investment fund
A fund whose managing company is prohibited to redeem investment certificates.

Custodian's Interested Persons
Members of the Council and the Executive Board of the Custodian, shareholders who own 10 and more percent of the Custodian's voting shares, as well as spouses, parents or children of such persons.

Custody Agreement
Written agreement between the Company and the Custodian, whereby the Custodian undertakes to keep in custody the Fund's property, to perform transactions with the Fund's property, and to service the Fund's accounts in accordance with the RL law, the Prospectus and upon instructions from the Company.

Financial and Capital Market Commission and/or the Commission and/or the FCMC
An independent public institution, which, in compliance with its goals and objectives, enjoys full rights to regulate and supervise the financial and capital market and activities of its participants. The FCMC makes independent decisions within the limits of its authority, performs functions assigned to it by law, and is responsible for their execution.

1. GENERAL INFORMATION ON THE INVESTMENT FUND

1.1. Objective of the Fund's Activities

The objective of the closed-end investment fund "Parex Baltic Real Estate Fund - II" is to achieve capital growth for the Fund's investors by investing primarily in real estate objects registered in the Baltic countries.

The purpose of the Fund's activities is to achieve a yield that exceeds 6 months EUR LIBOR + 3% per year.

1.2. The Fund and the Legal Status of Its Property

The investment fund is a pool of assets formed by investments made against investment certificates as well as assets obtained in transactions with the investment fund's property and on the basis of rights owned thereby.

The base currency of the "Parex Baltic Real Estate Fund - II" is the euro (EUR).

The investment fund is not a legal person.

"Parex Baltic Real Estate Fund - II" is a closed-end investment fund, and the Company that manages the Fund is prohibited to redeem investment certificates.

The fund's property is a joint property of its investors to be held, booked and managed separately from the property of the Company and other funds under its management, as well as separately from the Custodian's property.

Should the Company or the Custodian be declared insolvent or liquidated, the Fund's property shall not be included in the property of the Company or the Custodian.

The Fund's operating duration is set to be 5 calendar years as of the first business day after expiry of the initial placement period which will be announced in the Company's website: www.parex.lv. Upon expiry of the Fund's operating duration and after approval of the annual report the Company shall convene the general meeting of investors which resolved to prolong the Fund's activities or to liquidate the Fund.

If, upon expiry of the Fund's operating duration set in the Prospectus, the Fund's holdings in real estate objects and/or implemented real estate development projects have a good return potential, the general meeting of Investors may consider prolonging the Fund's operations for two years. The general meeting of the Investors shall pass the decision on prolongation of the Fund's operating duration.

Inclusion of the Fund's investment certificates in the regulated market. Investment certificates of the closed-end investment fund shall be regarded as public securities only after their inclusion in the regulated market. It is planned that investment certificates of the closed-end investment fund "Parex Baltic Real Estate Fund - II" shall be included in the investment fund list of the OMX Riga Stock Exchange not later than six months after the end of the initial placement period for the Fund's investment certificates.

1.3. Fiscal Year of the Fund

The reporting period of the Fund is 12 months, and it coincides with the fiscal year of the Company. The fiscal year of the Fund coincides with the calendar year.

The first and the last reporting year of the newly established fund may be shorter. The Executive Board of the Company shall pass the decision on the length of the first and the last reporting year.

2. SUMMARY OF EXPENSES RELATED TO TRANSACTIONS WITH INVESTMENT CERTIFICATES AND MANAGEMENT OF THE FUND

2.1. Commission on Sales of Investment Certificates

The commission for the sale of investment certificates is calculated as a percentage of the Fund's share value. Sales commission for investment fund "Parex Baltic Real Estate Fund - II" is up to 5.0% of the Fund's share value. The Executive Board of the Company shall pass the decision on the amount of the sales commission.

2.2. Fees to the Company, the Custodian and Third Persons Whose Fees are Payable from the Fund's Property

Beneficiary	Amount of the Fee
Company	1.50 % of the Fund's average asset value per year and 10.00% of the increase in the Fund's share value if such increase exceeds the benchmark rate (6 months EUR LIBOR + 3% per year)
Custodian	0.15 % of the Fund's average asset value per year
Sworn Auditor	Shall not exceed 0.10% of the Fund's average asset value per year
Third parties (notaries, agents, etc.)	In accordance with source documents and actual costs

For determining the amount of the fee, which is calculated from the increase in the Fund's share value, the Company shall use the High Watermark Principle. High Watermark Principle establishes the threshold for the net value of the Fund's share, below which the fee for the increase in the Fund's share value is not paid.

This threshold is called the High Watermark, and it is set at such net value of the Fund's share at which the fee for increase in the Fund's share value was paid previously, or, if the fee for increase in the Fund's share value has not been paid, at the Fund's share value at the Fund's inception.

In the interests of Investors the Company is entitled to decrease the fee to the Company, and it is authorised to pay fees to the Custodian, the Sworn Auditor and third parties from the Company's resources.

2.3. Other Payments from the Fund's Property

Other expenses shall be covered from the Fund's property if they are justified by external source documents and the RL legal acts regulating activities and accounting procedures of investment companies and investment funds.

Other payments comprise such expenses as fees to the LCD, RSE, taxes and duties, fees for real estate maintenance and insurance as well as other justified expenses.

In the interests of Investors the Company is entitled to make at its own discretion other payments from the Company's funds.

The purpose of the above information is to provide a general estimate of total expenses to be covered directly or indirectly by the Investor who purchases investment certificates of the Fund. Further information on procedures for calculating and paying such expenses is explained hereinafter as well as in the Fund Rules.

3. INVESTMENT POLICY AND INVESTMENT RESTRICTIONS

3.1. Investment Objective

The objective of the closed-end investment fund "Parex Baltic Real Estate Fund - II" is to achieve capital growth for the Fund's investors by investing primarily in real estate objects registered in the Baltic countries.

During the periods between transactions with real estate or before or after their execution the Fund's money can also be invested in financial instruments.

The policy of the investment fund sets out the following investment portfolio allocation:

1) Up to 100%, but not less than 50%, of the Fund's assets can be invested in real estate or in the rights to use it;
2) Up to 75% of the Fund's assets can be invested in money market instruments issued or guaranteed by government, municipalities and credit institutions as well as debt securities and money market instruments issued by corporations;
3) Up to 100% of the Fund's assets can be invested in equity securities or capital stocks issued by corporations;
4) Up to 25% of the Fund's assets can be invested in term deposits with credit institutions;
5) Up to 25% of the Fund's assets can be invested in investment certificates of open-end funds or similar collective investment undertakings or similar securities (hereinafter, the investment certificates of investment funds).

3.2. Investment Objects and Types

3.2.1. Investment Objects and Types

The Fund's assets can be invested in the following financial instruments:

1) Real estate located and registered in the Baltic countries, other member countries or OECD member countries, or the rights to use such real estate;
2) Debt securities and money market instruments issued or guaranteed by central banks, governments and municipalities of Latvia, other member countries, or OECD member countries;
3) Debt securities and money market instruments issued or guaranteed by credit institutions as well as issued by corporations of Latvia, other member countries, or OECD member countries;
4) Equity securities or capital stocks issued by corporations registered in Latvia, other member countries or OECD member countries;
5) Deposits with credit institutions licensed in Latvia, other member countries, or OECD member countries;
6) Investment certificates (shares) of open-ended funds or similar collective investment undertakings registered in Latvia, other member countries.

3.2.2. Investments in real estate objects or the rights to use such objects

Types of real estate:

1) office space;
2) commercial space; trading centres;
3) industrial objects – production and storage space;
4) residential buildings;
5) buildings under construction;
6) land plots and real estate development projects.

The assets of the closed-end investment fund "Parex Baltic Real Estate fund - II" can be invested in real estate:

- by purchasing real estate objects with potential for high price increase;
- by purchasing real estate or the rights to use it with the purpose to receive income from lease and/or rental payments;

- by short-term purchase and sale of real estate objects;
- by entering into contracts for construction of real estate objects, including reconstruction;
- by entering into contracts for adding value to the real estate;
- by entering into contracts for real estate leasing and renting;
- by participating in financing of real estate investment projects;
- by making other transactions with real estate or the rights to use it.

3.2.3. Investment in derivatives

To provide protection against the risk of fluctuations in market value of the Fund's assets that may arise due to changes in asset prices or exchange rates, the Fund Manager has the right to invest in derivatives on the Fund's account. In view of additional risks arising from derivatives transactions, see Chapter 4 "RISKS" hereof.

The Fund Manager can enter into repurchase (repo) agreements on the Fund's account. 'Repo' agreements are transactions whereby one of the parties involved purchases financial instruments from the other under agreement that the other party will repurchase these financial instruments on the agreed time. Thus, under the repurchase agreement, the Fund Manager has the right to sell financial instruments to obtain short-term liquidity or to purchase financial instruments to make a short-term investment in liquid assets.

Where necessary for the Fund's operations, the Fund Manager has the right to keep part of the Fund's assets in liquid assets including cash.

3.3. Investment Restrictions

1. The Fund's investments can be made in freely transferable securities and money market instruments that meet at least one of the following criteria:
   1.1) They are included in the official or similar listings of stock exchanges located in Latvia, other member country, or OECD member countries;
   1.2) They are traded on other regulated and openly accessible markets of financial instruments that are located in countries referred to in Subparagraph 1.1) of Paragraph 3.3;
   1.3) They are not included in the official listings of stock exchanges or are not traded on other regulated markets, but the rules governing the issue of such securities and money market instruments provide that an application will be made to include these securities or money market instruments in stock exchanges or regulated markets referred to in Subparagraphs 1.1) and 1.2) of Paragraph 3.3, and that these securities will be included there within one year from the date when subscription to these securities or money market instruments began.
2. The Fund can make additional investments in transferable securities and money market instruments that do not comply with provisions of Paragraph 3.3.1 of the Prospectus. Such investments can form up to 100 percent of the Fund's assets.
3. Fund's investments in a separate entity can form:
   1.1) up to 100 percent of equity of a single issuer;
   1.2) up to 100 percent of total voting rights of a single issuer.
4. Investments in a separate real estate object shall not exceed 50 percent of the Fund's assets.
5. The Fund's total investments in land and real estate development projects in aggregate shall not exceed 50 percent of the Fund's assets.
6. Upon discretion of the Fund Manager and pursuant to the Fund's investment policy, the Fund's investments in one country can form 100 percent of the Fund's assets.
7. The real estate acquired at the expense of the Fund shall be registered with the Land Register in the name of the Company. The Company shall not dispose of, pledge or otherwise encumber such real estate without the Custodian's consent. The Company shall follow restrictions set out in the Law and the Prospectus in dealings with such real estate.
8. The Company itself does not perform the real estate management.
9. The Company's approved independent and professional Expert Commission performs valuation of the real estate. Investments in real estate can be made only after the Expert

Committee has valued the real estate or approved the valuation of an independent certified evaluator and provided that the Fund's investments do not exceed such value.

10. Transactions with derivatives are permitted only where it is possible to obtain precise and objective valuation of a derivative and where fulfilling of a derivative contract does not result in breach of investment restrictions hereof and where liabilities arising from a derivative contract are covered with the Fund's assets.
11. The Fund's property shall not be invested in derivatives on precious metals.
12. Investments on the Fund's account are subject to restrictions not explicitly defined in the Prospectus but set out in the Law.

3.4. Exceeding the Investment Restrictions

Restrictions set out in Paragraphs 3.1. 1) and 3.1.4) of the Prospectus may be exceeded 12 months after the Fund's registration with the FCMC as well as in interim periods between transactions with real estate or before or after their execution when 100% of the Fund's assets can be held in cash or invested in short-term deposits and/or placed in financial instruments permitted in the Prospectus.

3.5. Loans on the Fund's Account

The Company may borrow on the Fund's account without time restrictions and subject to the maximum amount permitted in the Law "On Investment Management Companies".

The decision about borrowing on the Fund's account shall be taken by the Fund Manager in accordance with the Prospectus and the Fund Rules.

3.6. Selection of Investment Objects

Investment objects shall be chosen in accordance with the principles of the Fund's investment policy and investment restrictions as well as in accordance with procedure prescribed by the Fund Rules, observing the principles of diversification and risk reduction.

The Investment Committee, appointed by the Executive Board of the Company manages the Fund's property, makes decisions and issues orders. The Investment Committee performs functions of the Fund Manager in accordance with provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund and procedures stated by the effective RL legal acts and Fund Rules.

4. RISKS

4.1. Investor Profile

The Fund was set up for professional and experienced investors as well as for those who are not familiar with capital market opportunities and wish to participate in the rapid development of the real estate market in the Baltic countries. Such strategy comprises liquidity risk, legal risk, information risk and political risk that can adversely affect the Fund's share value.

4.2. Investment-Related Risks

The operations of the Investment Fund involve risks that arise from various factors. Each type of risk can adversely affect the operational results of the Fund and, thus, the value of each of the Fund's shares. The following risks must be distinguished in this respect:

Basic risk – Investors should be aware that price of investment objects as well as income from them is subject to fluctuations that directly affect the value of investment certificates owned by the Investor.

Liquidity risk – refers to the ability at any point in time to dispose of (sell) any of the Fund's assets. If the asset can be sold so that the average bid (in comparison to transaction volume in the particular market) does not create significant movements in price, this market can be regarded as liquid.

Legal or regulatory risk – risk of possible changes in national and foreign laws and regulations (including tax policy) resulting in additional expenses to the Fund, as well as risk of changes in normative documents of local governments (including changes in minute planning, construction regulations etc.).

Information risk – inaccessibility or lack of securities/ real estate market information on issuer's/ real estate's true condition.

Derivatives risk – Investors should be aware that investments in derivatives are subject to high risk. Liabilities or claims from such transactions may decrease or cease to exist. The risk of loss in certain situations may not be estimated and may exceed the value of collateral. If loans are used to cover liabilities arising from derivatives or if liabilities or claims from such transactions are denominated in foreign currency, the risk of loss may increase.

Derivatives transactions may result in insolvency and encumber the Fund's properties, without the possibility to estimate losses in advance.

Main Foreign Investment Risks:

- Political risk **–** risk that investment countries get involved in military conflicts and warfare, as well as risk of major changes in political environment of investment countries, for example, military coup d'etat, overturns. Such factors usually have a profound impact also on real estate and financial markets of the respective country and may affect the Fund's operations;
- Economic risk – risk of changes in economic situation of investment regions, such as economic recession, excessive inflation, banking crisis, etc.;
- Accounting risk and risk of repeated tax collection – use of different accounting principles for real estate and securities accounting and registration systems in different countries may cause additional burdens on investments, such as higher tax rates being set for non-resident investments abroad; thus, the Fund's property may be burdened more than if investments were made on the local market;
- Currency risk – as investments in the Fund are denominated in EUR, but the Fund's assets are placed also in other currencies, there is a risk that foreign currency may fluctuate against the EUR.

Particular risks related to investments in real estate

As the real estate is not traded in the regulated market, it has lower liquidity than investments in financial instruments that are traded in the regulated market. In view of the fact that the Fund's investments in a separate real estate object can amount to 50% of the Fund's assets and that the Fund's total investments in land and real estate development

objects can amount to 50% of the Fund's assets, Investors should be aware of the increased risk in the Fund's activities.

4.3. Risks Related to Business Activities of the Investment Company

Activities of investment management companies, like any other profit driven business activities, are subject to risk of decrease in profits or incurrence of losses.

Current norms of the RL legal acts regulating activities of investment management companies have a substantial and positive impact on possible risks arising for investment management companies. Particularly important is the provision of the RL law that the only activity of the investment management company shall be the management of investment funds, as well as pension funds. Such provision determines and limits the scope of risks possible for the Company.

Normative acts regulating activities of investment management companies contain provisions protecting interests of investors and promote risk reduction, as well as entitle the state executive authority, the Financial and Capital Market Commission, to act on behalf of the RL regulating activities of securities market participants, including investment management companies, and controlling public circulation of financial instruments, including investment certificates, in the Republic of Latvia.

The RL normative acts provide an important norm protecting the interests of investors: should the rights of the investment management company to manage funds expire (for example, insolvency or bankruptcy), investment funds under its management shall not be liquidated, but, instead, the managing company of such funds shall be replaced.

Risks related to business activities of the Investment Company are as follows:

State regulation – an external risk related to stability of the state legislation and normative acts. The revision of normative acts regulating business activities of investment companies is a substantial state regulation risk factor.

Changes in political situation - the investment company is a business entity acting in the RL, and its activities are closely related to the political situation in the country. Changes in the political situation may directly affect activities of the investment company and dynamics of the Fund's net asset value.

Changes in economic situation – these are external risks that may affect attractiveness of the investment company's sphere of activity – banking crisis, changes in consumer demands, and changes in inflation.

Competition risk – competition on the part of Latvian investment companies and foreign fund management companies is to be taken into account as it may increase as this market niche develops. Consequently, the investment management company may terminate its activities and transfer responsibility for the Fund's management to another investment management company or custodian.

Other risks – activities of the investment company may also be affected by other risks such as natural disasters, ecological changes, crime, etc., which the investment company can not fully predict or control.

4.4. Potential Measures for Risk Reduction

In order to decrease investment risks, the Fund is managed following the principles of diversification and risk reduction.

When making investments on the Fund's account in the real estate objects the Company obtains sufficient and comprehensive information about the real estate and continues to follow the condition of such real estate. In order to decrease the risk to suffer financial loss, the Company has the right to insure the real estate against the risk of fire and natural hazards and/or illegal activities of third persons.

When making investments in financial instruments, the Company obtains sufficient information on potential or acquired investment objects, and it also monitors the financial and economic situation of issuers of securities in which the Fund's property is or will be invested.

When developing the Fund's investment strategy and investment restrictions within the scope of the Fund's investment policy set out in this Prospectus, the Company conducts analysis of the Fund's investments and their classification by type of real estate and evaluates the degree of risk

attributable to each of these factors. The Company strictly observes norms and restrictions established in the Prospectus, the Fund Rules and laws and regulations of the Republic of Latvia.

The Fund's investment strategy is developed to minimise risks referred to in Subparagraphs 4.2 and 4.3, but the Company does not guarantee that it will be possible to fully avoid these risks in the future.

5. RIGHTS AND LIABILITY OF INVESTORS

5.1. Rights of Investors

1) To sell without limitation their investment certificates in the secondary market;
2) To participate, in proportion to the number of investment certificates held, in the distribution of income earned from transactions with the Fund's property;
3) To participate, in proportion to the number of investment certificates held, in the distribution of the Fund's liquidation income;
4) To demand that the Company calls the general meeting of Investors whenever and in the manner required by the Prospectus;
5) To demand that the Company repurchase investment certificates it has issued if the Company is responsible for errors or omissions in information stated in the Prospectus and documents attached thereto, which are important for proper valuation of investment certificates.
6) To have access to all publicly available information about the Company, the Fund, and persons related to the Fund's activities, as well as to demand and receive free of charge the Fund's annual and semi-annual reports.
7) The Investor has no right to request the Fund's division. This restriction applies as well to the pledgee of the property pledged by Investor, creditor, or administrator in the event of the Investor's insolvency.

After inclusion in the regulated market the Fund's investment certificates shall be regarded as publicly circulating securities. Rights and obligations of owners of publicly circulating investment certificates are stated in accordance with the RL Laws "On the Financial Instruments Market", "On Investment Management Companies" and other RL legal acts.

5.2. General Meeting of Investors

The Company shall have the right to convene the general meeting of Investors upon its own initiative, and the Company also has the duty to convene the general meeting of Investors upon their request.

The General Meeting of investors has the right to bind the Company by its resolutions on:

1) Approval of the Fund's Prospectus and amendments thereto;
2) Replacement of the Company or the Custodian;
3) Enlargement or reduction of the volume of the Fund's issue;
4) Liquidation of the Fund;
5) Extension of the Fund's operating duration;
6) Other issues specified by the Commission or provided for in this Prospectus.

Costs incurred from convening of the general meeting of investors are covered from the Fund's property.

Procedure for passing resolutions in the general meeting of the Fund's investors is determined in accordance with the Law "On Investment Management Companies".

5.3. Special provisions

Once a year, after receipt of the Auditor's report and approval of the Fund's financial result for the year, the Executive Board of the Company has the right to pass the decision about reduction of the volume of the Fund's issue and partial cancellation of the investment certificates. For passing such decision, the Company's Executive Board has the same rights as the general meeting of Investors.

When passing the decision about reduction of the volume of the Fund's issue and partial cancellation of the investment certificates, the Executive Board of the Company shall comply with the following rules:

- the volume of cancelled investment certificates shall not exceed 100% of the Fund's investment value gains realised in the previous reporting year;
- Upon the Company's order accepted by the Fund's Custodian, the Latvian Central Depository, following the procedure set out in LCD Regulation No.2 "On recording the issue of financial instruments", performs partial cancellation of the investment certificates.

The resolution of the Executive Board of the LCD about partial cancellation of issue of investment certificates recorded by the LCD and issued in the RL is sent to all members of the LCD, and this information is also immediately published on the Internet website of the LCD.

- The Fund's investment certificates are cancelled in proportion to the number of investment certificates held by an Investor. When making an allocation of the cancelled investment certificates among the Investors, the number of cancelled investment certificates is rounded with precision up to 4 decimals in accordance with the generally accepted mathematical rounding procedures.
- Settlement for investment certificates is effected in the Fund's base currency (euro).
- Expenses related to partial cancellation of the Fund's investment certificates are covered from the Fund's property.

The Company shall inform Investors about the decision to reduce the volume of issue and partial cancellation of investment certificates by publishing the relevant information in the Internet website: www.parex.lv. The Company shall also inform the Commission, the Custodian, and the Sworn Auditor.

The decision shall become effective not earlier than within a month from its publishing. If during this period the Company receives a written request to convene the general meeting of investors, then the Company is obliged, in accordance with the Law "On Investment Management Companies" to convene the general meeting of Investors to consider the issue about the reduction of the volume of the Fund's issue and partial cancellation of investment certificates.

5.4. Liability of Investors

The Investor is not responsible for the Company's liabilities. The Investor's liability for claims that may be lodged against the Fund's property is limited to the value of the Fund's shares owned.

Arrangements contrary to the above provisions shall be invalid as from the moment of signing. Claims against the Investor concerning his liabilities may be lodged against his investment certificates, but not against the Fund's property.

6. FUND MANAGEMENT

6.1. Investment Management Company

Name of the Company: IMJSC "Parex Asset Management"

Registered address: Republikas square 2a,
Riga, LV 1010, Latvia
Tel. (+371)67010810, fax (+371)67010192

The location of the executive body of the Company is the same as its registered address.

The Company was founded on: January 11, 2002

Common Registration Number: 40003577500

Company's Founding, Registered and Paid-Up Capital: LVL 4,150,000

Company's Shareholders: **JSC "Parex banka"**
Common Registration Number: 40003074590
Number of Shares: 4,150,000 with voting rights
Portion of the Capital: 100 %

Licences and Special Permits:

Licence for Management Services No. 06.03.07.098/181 - reregistered on December 10, 2004, September 30, 2005, and December 5, 2005.

Licence for Management of State Funded Pension Scheme Assets No.06.03.02.09.098/182 – reregistered on December 10, 2004 and December 7, 2005.

6.1.1. Company's Rights, Obligations and Liability for the Management of the Fund

Rights

The Company shall manage on its own behalf and at the expense of Investors the Fund's property and rights attached thereto, investing the Fund's property in accordance with risk reduction principle in investment objects allowed by the RL "Law on Investment Management Companies" and the Prospectus.

In providing management services the Company shall act in the same manner a careful and attentive owner would do, and only in the best interests of Investors and other customers of the Company.

The Company does not need the consent of Investors for performing actions related to the Fund's management.

The Company is entitled to a fee for the management of the Fund, including charges and reimbursement for expenses.

The Company has the right to set up and manage more than one fund.

Obligations

The Company shall be obliged to lodge claims of Investors on its behalf against the Custodian or third parties should the circumstances so require. This, however, shall not restrict the rights of Investors to lodge such claims on their own behalf.

The Company shall be obliged to notify the Commission in writing about any amendments to the lists of Company's Interested Persons and Custodian's Interested Persons, as well as of any amendments and supplements to documents and information submitted to the Commission within a week from the date of making such amendments.

In cases prescribed by the RL legal acts the Company shall be bound, upon its initiative or upon the request of the Investors, to call the general meeting of Investors.

Responsibility

The Company is not allowed to invest its funds in another investment company or to purchase the shares of the fund managed itself.

The Company is responsible for losses caused to Investors or third parties by the Company's executives or authorised persons as a result of infringement of provisions of the RL law, the Prospectus or the Fund Rules or due to misuse of powers or negligent performance of their duties.

6.1.2. Executive Board of the Company

The Executive Board is the Company's executive body responsible for managing the Company's property and using its capital in accordance with the provisions of the law and articles of association and instructions of general meetings of shareholders.

Rights and Obligations Related to the Management of the Fund

1. The Executive Board is in charge of and manages all matters of the Company. It is also responsible for all business activities of the Company, as well as for accounting in conformity with the requirements of the law. The Executive Board represents the Company. The Executive Board shall manage the property of the Company and use its capital in accordance with the law and articles of association and instructions of the general meetings of shareholders.
2. The Executive Board shall submit quarterly reports on its activities to the Council, and an annual report at the end of each year to the general meeting of shareholders. The Chairman of the Executive Board (the President) shall notify the Chairman of the Council on each important aspect of the Company's activities.
3. While managing funds founded or acquired by the Company, as well as while making investments on the Fund's account, the Executive Board shall conduct due-diligence on potential or acquired investment objects and also monitor the financial and economic situation of issuers of securities in which the Fund makes or will make its investments.
4. The Executive Board shall ensure a comprehensive day-to-day internal control system for the Company and a separate one for each fund managed.
5. The Executive Board shall perform the following actions, independently or with involvement of competent persons:
   - accounting of investment funds, keeping separate accounting for each fund;
   - prepare annual and semi-annual reports on investment funds;
   - approve annual and semi-annual reports of each fund;
   - appoint and approve the sworn auditor who audits the annual report of each fund;
   - other actions prescribed by the law and binding resolutions of the Commission in relation to accounting for the Funds' assets.

Composition of the Executive Board:

Roberts Idelsons	Chairman of the Executive Board
Elena Coleman	Member of the Executive Board
Edgars Makarovs	Member of the Executive Board
Zigurds Vaikulis	Member of the Executive Board
Igors Petrovs	Member of the Executive Board

6.1.3. Council of the Company

The Council is an institution elected by shareholders and consisting of 4 persons as at the moment of approval of the Prospectus.

Rights and Obligations of the Council Related to the Management of the Fund:

- at any time the Council is entitled to request from the Executive Board a report on the Company's condition, including the Fund's condition;
- the Council is entitled to examine registers and documents, as well as securities and other property of the Company, including the Fund's property;
- the Council may entrust any of its members to carry out such examination, or entrust an external expert with elucidation of individual issues.

Composition of the Council:

Nils Melngailis	Chairman of the Council
Roberts Stuģis	Deputy Chairman of the Council
James R.Breiding	Member of the Council
Anatolijs Fridmans	Member of the Council

6.1.4. Fund Manager

The Executive Board of the Company shall appoint the Fund's Investment Committee consisting of at least three members. The Investment Committee performs functions of the Fund Manager, manages and is empowered to give orders concerning the property managed by the Fund in accordance with the Prospectus, the Fund Rules and resolutions of the Executive Board of the Company. The Fund Rules shall regulate the procedures for passing resolutions and orders by the Investment Committee.

Members of the Investment Committee shall only be allowed to work in one Investment Company.

The Investment Committee shall comprise Member of the Executive Board **Roberts Idelsons** and fund managers **Deniss Moščenko**, **Jānis Vizbulis** and **Voldemārs Sprūžs**.

6.1.5. Names of Other Funds, Private Pension Fund Plans and State Funded Pension Scheme Asset Investment Plans Managed by the Company

The Company manages the following state funded pension scheme asset investment plans:

- "Parex Universal Pension Plan";
- "Parex Active Pension Plan".

The Company manages assets of the following investment funds:

- "Parex Eastern European Fixed Income Funds";
- "Parex Russian Equity Fund",
- "Parex Baltic High Yield Fund",
- "Parex Caspian Sea Equity Fund",
- "Parex Strategic Allocation Funds",
- "Parex Ukrainian Equity Fund".

The Company manages the following private pension scheme asset investment plans:

- Pension Plan "Extra Pension – Active" of the JSC "Parex Open Pension Fund";
- Pension Plan "Extra Pension – Active USD" of the JSC "Parex Open Pension Fund";
- Pension Plan "Extra Pension – Active EUR" of the JSC "Parex Open Pension Fund";
- Pension Plan "Extra Pension – Balanced" of the JSC "Parex Open Pension Fund";
- First Pension Plan of the JSC "First Closed Pension Fund".

6.1.6. Fee to the Company, Procedure for Determining and Payment of Such Fee

The Company shall receive a fee for the Fund's management amounting to 1.5% of the Fund's asset value per year, and commission 10.00% of the increase in the Fund's share value if such increase exceeds the benchmark rate (6 months EUR LIBOR + 3% per year), as well as the investment certificate sales commission.

The amount of sales commission is determined pursuant to Chapter 8 of the Prospectus, and fees to Distributors are paid from this source. Fees to the Company for the Fund's management shall be calculated once a month. This fee is payable once a month from the Fund's property, not later than within ten days after the end of the current calendar month. The Company calculates, but the Custodian verifies, accepts and transfers the fee to the Company.

When calculating the monthly fee payable to the Company for the Fund's management, the Company assumes that the year of the Fund consists of 365 days:

$$SA_t = \overline{FAV}_t * \frac{L_1}{365 * 100} * N$$

SA_t	–	monthly fee payable to the Company for the Fund's management;
$\overline{FAV}_t$	–	The Fund's average asset value per month;
N	–	number of calendar days per month;
L1	–	the rate at which a fee payable to the Company is calculated.

The Fund's asset value is calculated in accordance with Paragraph 7.1 of the Prospectus.

The Fund's Average Asset Value is calculated as an arithmetic mean of the Fund's asset value at the end of the previous and current period, using calendar month as the period.

$$\overline{FAV_t} = \frac{FAV_s + FAV_b}{2}$$

$\overline{FAV_t}$ – The Fund's average asset value per month;
FAV_s – The Fund's asset value at the end of the previous month;
FAV_b – The Fund's asset value at the end of the current month.

The Company receives **a commission for the increase in the Fund's value due to investment activities** if such increase exceeds the benchmark rate specified in the Prospectus.

The benchmark is the level of return, which the Fund manager strives to exceed. For "Parex Baltic Real Estate Fund – II) the benchmark is EUR LIBOR 6m + 3% per year.

$$SAI_t = \left(FDV_b - FDV_s - \frac{FDV_s * B}{365 * 100} * N \right) * L_2 * IA$$

SAI_t – the amount payable to the Company for investment results;
FDV_s – the Fund's share value at the end of the previous commission calculation period;
FDV_b – the Fund's share value at the end of the month;
B – benchmark rate at the end of the previous commission calculation period;
N – number of calendar days in the commission calculation period;
L2 – rate of commission payable to the Company;
IA – number of the Fund's investment certificates issued.

Commission calculation period is the period of time from the date when the previous audit of the Fund's statements was carried out until the end of the month.

If the increase in the Fund's share value in the commission calculation period does not reach the benchmark level specified in the Prospectus the Company would not receive the commission for the increase in the Fund's value due to investment activities.

The Company shall calculate the commission for increase in the Fund's value due to investment activities each calendar month, booking it under accruals for the current month, but the amount is cashed in after the audit of the Fund's annual report.

6.2. Custodian

Name of the Custodian: Joint Stock Company "Parex banka"
Founded on: May 14, 1992
Common Registration Number: 40003074590
Licences: Licence for Credit Institution Activities No.06.01.02/91
Registered Address of the Custodian: Republikas square 2a, Riga LV 1522, Latvia

The location of the executive body of the Custodian is the same as its registered address.

6.2.1. Rights and Obligations of the Custodian

Rights

The Custodian shall act independently from the Company and only in the best interests of Investors, provided it is not contrary to the Law "On Investment Management Companies" and other RL normative acts, regulations of the Commission, the Prospectus and the Fund Rules.

The Custodian shall be entitled to a fee for services agreed upon in the Custody Agreement.

The Custodian shall have the right to assign to third persons the custody of the Fund's property, servicing of the Fund's accounts, and performance of broker's duties (execution of intermediary transactions on securities market).

Transfer of Rights to Manage the Fund to the Custodian

If the Company's rights to manage the Fund expire, the rights to manage the Fund shall be transferred to the Custodian, except where such rights are assigned to another company.

Within the term prescribed by the RL legal acts from the date of transfer of the rights to manage the Fund, the Custodian shall transfer the rights to manage the Fund to another investment company. If the Custodian does not transfer the rights to manage the Fund to

another investment company within the prescribed term, the Custodian shall liquidate the Fund.

Obligations

The Custodian shall keep the Fund's property in accordance with the RL legal acts and the Custody Agreement.

The Custodian shall ensure that Investment Certificates are issued, sold, and redeemed on behalf of the Company and in accordance with the Law "On Investment Management Companies", applicable RL normative acts, the Prospectus and the Fund Rules.

The Custodian shall ensure that the Fund's net asset value is calculated in accordance with the RL normative acts, regulations of the Commission, the Prospectus and the Fund Rules.

The Custodian shall act upon the orders of the Company or persons authorised by the Company, unless they are contrary to the RL normative acts, regulations of the Commission, the Prospectus, the Fund Rules or the Custody Agreement.

The Custodian shall ensure that the Fund's income is used in accordance with the Law "On Investment Management Companies", applicable RL normative acts, the Prospectus and the Fund Rules.

The Custodian shall ensure proper payments related to transactions with the Fund's property.

The Custodian shall be obliged to lodge claims of Investors on its behalf against the Company should the circumstances so require. This shall not restrict the rights of Investors to lodge such claims on their own behalf.

The Custodian shall convene the general meeting of the Fund's investors whenever and as required by the normative acts of the Republic of Latvia.

The Custodian shall immediately notify the Commission and the Council of the Company about the Company's actions known to the Custodian, which contradict the RL normative acts, the Prospectus, the Fund Rules or the Custody Agreement.

Responsibility

Where the Custodian has deliberately or negligently broken the law or the Custody Agreement, the Custodian shall be fully responsible to the Fund's Investors, the Company and third parties for the losses caused.

Where the Custodian has granted its consent for a transaction that fails to conform with the Law "On Investment Management Companies" and applicable provisions of the RL normative acts, or has failed to lodge a claim in respect of default on such provisions, the Custodian and the Company shall be jointly responsible for losses caused to the Fund.

Transfer of the Custodian's obligations to third parties shall not release the Custodian from liability stated by the RL normative acts and the Custody Agreement.

6.2.2. Fee to the Custodian, Procedure for Determining and Payment of Such Fee

Fee to the Custodian shall be covered from the Fund's property in accordance with the Prospectus, the Fund Rules and the Custody Agreement.

1) For custody and supervision of the Fund's property the Custodian shall receive a fee amounting to 0.15% of the Fund's asset value per year.
2) The Custodian shall receive LVL 3,00 per transaction for processing transactions with the Fund's property.
3) The fee for pledging securities and/or releasing the pledge on securities – LVL 20,00.

The fee payable to the Custodian for custody and transactions control is calculated once a month on the basis of the calculated Fund's value. This fee is payable once a month from the Fund's property, not later than within ten days after the end of the current calendar month. The Company calculates, but the Custodian verifies, accepts and remits the fee to the Custodian.

Other amounts payable to the Custodian are paid immediately unless otherwise provided for in the agreement with the Company.

In calculation of the monthly fee payable to the Custodian for the Fund's management, the Custodian assumes that the Fund's reporting year consists of 365 days:

$$TA_t = \overline{FAV}_t * \frac{L_2}{365 * 100} * N$$

TA_t – Monthly fee payable to the Custodian for keeping and supervision of the Fund's property;
$\overline{FAV}_t$ – The Fund's average asset value per month;
N – number of calendar days per month;
L2 – the rate at which a fee payable to the Custodian is calculated.

The Fund's asset value is calculated in accordance with Paragraph 7.1 of the Prospectus.

The Fund's Average Asset Value is calculated as an arithmetic mean of the Fund's asset value at the end of the previous and current period, using calendar month as the period.

$$\overline{FAV}_t = \frac{FAV_s + FAV_b}{2}$$

$\overline{FAV}_t$ – The Fund's average asset value per month;
FAV_s – The Fund's asset value at the end of the previous month;
FAV_b – The Fund's asset value at the end of the current month.

The Fund's net asset value is calculated in accordance with Chapter 7 of the Prospectus.

Fee for the custody and supervision of the Fund's property is paid to the Custodian once a month within five days after the end of the month.

6.3. Sworn Auditor

Name of the Sworn Auditor: SIA "PricewaterhouseCoopers"
Registration Number: 40003142793
Registered address: Riga, K.Valdemara street 19, LV-1010, Latvia

The location of the executive institution of SIA "PricewaterhouseCoopers" is the same as registered address.

Licences: Latvian Sworn Auditors' Association Licence No. 5 for auditing services.

SIA "PricewaterhouseCoopers" is one of the largest audit, management and tax consulting companies in Latvia.

The total fee to the Sworn Auditor shall not exceed 0.10% of the Fund's average asset value per year.

Fee payable to the Sworn Auditor shall be included in calculation of the Fund's asset value gradually – in similar proportions every month. When calculating the Sworn Auditor's fee for the current month, the Company assumes that the Fund's reporting year is 365 days. Fee for the Fund' audit shall be accrued and paid to the Sworn Auditor once a year.

7. METHODS AND PROCEDURES FOR DETERMINING THE FUND'S NET ASSET VALUE

7.1. Principles for Valuation of the Fund's Assets

The Fund shall keep its accounting in accordance with the Law "On Investment Management Companies", "Regulations on Preparation of Financial Statements of Investment Funds" issued by the Financial and Capital Market Commission, as well as other RL normative acts. International Accounting Standards issued by the Board for International Accounting Standards shall be applied in valuation of items of financial statements.

The Fund's assets shall be valuated in accordance with the following accounting concepts:

1) it is assumed that the Fund will continue to exist in the future;
2) the same valuation methods as in the previous accounting year shall be applied;
3) valuation shall be prudent:
   - the Fund's financial statements shall comprise revenues derived only until the date of preparation of financial statements,
   - all possible costs shall be taken into account regardless of the time of their occurrence (i.e. those that relate to the accounting year and to the previous operational periods);
4) revenues and expenses related to the accounting period shall be taken into account regardless of the date of payment and the date of receipt or issue of the invoice;
5) all items with material impact on the valuation or decision-making of persons using the financial statements shall be disclosed;
6) items of assets and liabilities and their components shall be valuated separately;
7) all transactions shall be booked and disclosed in the financial statement, taking into account their economic content and nature rather than their legal form.

In exceptional cases deviations from the above accounting principles can be made. Any such case shall be explained in appendices to the financial statement, stating its impact on the Fund's assets and liabilities, financial position and financial results.

The Company shall keep the Fund's bookkeeping in the fund's base currency. In order to comply with the Republic of Latvia law, the Company shall ensure bookkeeping in LVL. Transactions in the fund's base currency are recalculated in LVL in accordance with the Bank of Latvia exchange rate at the moment of the transaction.

For the purposes of the Fund's accounting, transactions in foreign currency shall be converted into the RL monetary unit at the relevant exchange rate stated by the Bank of Latvia on the date of such transaction. When stating the Fund's net asset value and the Fund's share value, assets and liabilities in currency other than the basic currency of the Fund shall be converted to the basic currency of the Fund in accordance with Paragraph 7.1.8 of the Prospectus. Gains or losses from exchange rate fluctuations, increasing or reducing the value of the Fund's assets and liabilities, accordingly increases or reduces the Fund's net asset value.

The Fund's net asset value is the value of the Fund's assets less the value of the Fund's liabilities.

The Fund's share value is the fund's net asset value divided by the number of investment certificates in circulation.

The Fund's net asset value and the Fund's share value, including the value of its assets and liabilities, shall be determined on a regular basis – about condition on the last business day of the month.

In accordance with the Prospectus and requirements of the Republic of Latvia normative acts, assets of "Parex Baltic Real Estate Fund - II" shall comprise only real estate and financial assets (see definition of "Financial instruments").

The Fund Manager shall divide all financial assets included in the Fund in the following categories:

- financial assets held for trading purposes;
- financial assets held to maturity.

Financial assets held **for trading purposes** are financial assets purchased or incurred mainly for the purpose of deriving profit from short-term price fluctuations.

Financial assets held **to maturity** are financial assets with fixed or determinable payments and fixed maturity, which may and are meant to be held to maturity.

The Fund Manager shall be entitled to include financial assets with fixed or determinable payments and fixed maturity in the category of financial assets held to maturity if he intends to hold such financial assets to maturity and is able to do so.

The Fund Manager shall classify financial assets with fixed maturity at the moment of purchase and shall revise the asset classification on a regular basis (at the end of each month).

The valuation of the Fund's assets is done prudently. In valuation of financial assets the Fund Manager shall use the following principles:

- financial assets held for trading purposes and available for sale shall be valuated at their fair value. Fair value is the amount of money for which an asset may be exchanged or liabilities may be fulfilled in a transaction between well informed, concerned and financially independent persons;
- financial assets held to maturity with fixed maturity shall be valuated at depreciated acquisition value, applying the accrued interest rate method (see Paragraph 7.1.2).

Financial assets initially recognised in financial statements should be valuated at their acquisition value, which is the fair value of remuneration paid for the asset. The transaction costs directly related to the purchased asset are included in the acquisition value.

7.1.1. Valuation of real estate

The real estate is initially valued at the acquisition cost, which is the fair value of the compensation provided for it. The acquisition cost comprises transaction costs directly related to the acquired real estate (notary fees, state and municipal charges etc.). The costs of reconstruction, improvement and replacement of the real estate are added to the initial value of the real estate if it is expected that such costs will increase the future economic benefits from such real estate.

The real estate market value for the Fund's investments is determined once in a quarter by the Expert Commission appointed by the Executive Board of the Company. Also, an independent, licensed commercial real estate evaluator performs appraisal of the real estate at least once a year. If during the reporting period the real estate market value notably changes in comparison to the value at the beginning of the reporting period and the value changes are persistent, commercial real estate evaluator can revalue the Fund's real estate also more often. In such case the decision about the real estate revaluation is passed by the Executive Board of the Company.

The changes in value are treated as unrealised investment value gain or loss.

The real estate market value is determined in accordance with the "International Valuation Standards" on the basis of one of the following methods:

1) sales comparison method;
2) income capitalisation method;
3) replacement cost method;

When determining the market value for a particular object the choice of the most appropriate method is based on the nature of information available, market characteristics and specifics of the particular object.

The sales comparison method is based on the assumption that a rational buyer will not pay more for the real estate than he would pay for a property with analogous quality and functionality. When applying the sales comparison method, the value of a real estate is expressed in a standardised way (price per square meter, gross income per year) and prices of similar real estate sold in the active market. Where necessary the evaluators take into account differences in the nature of the particular property, its location or contractual terms. If there is no active market for the particular real estate, evaluator relies on transactions with similar real estate objects in the last twelve months, adjusting for the changes in the economic circumstances since such transactions.

When applying the income capitalisation method, the value of a real estate is based on the projected future cash flow (both incoming and outgoing) generated by the particular real estate and by discounting the value of these cash flows to the valuation date.

When applying the replacement cost method, the value of a real estate is determined by separately assessing the value of land and the value of construction on the basis of construction replacement costs. The value of a real estate is the sum of the value of land and the value of construction.

When determining the Fund's net asset value and the Fund's share value, the latest valuation of the Fund's real estate approved by the Expert Committee is used.

7.1.2. Valuation of Debt Securities Held for Trading Purposes

The fair value of debt securities held for trading purposes that are quoted on stock exchanges or other regulated markets shall be based on the last published market prices known to the Custodian.

Where the security's income is paid out in form of coupon payment and the stock exchange price does not include accrued interest or coupon portion, it is added in amount that corresponds to the time period from the starting date of coupon calculation to the date of the Fund's net asset value calculation.

7.1.3. Valuation of Debt Securities Held to Maturity and Debt Securities not Traded Publicly

Debt securities held to maturity and debt securities not traded publicly on stock exchanges or other regulated markets are valuated at their depreciated acquisition value, which is calculated using the accrued interest rate method, i.e., security's book value is the sum of its acquisition value and depreciated discount or mark-up (Agio, Disagio) value. Income is recognised and accounting value reduced using the rate that precisely discounts the flow of anticipated future payments (until the financial asset's maturity or until the date of interest rate revision) to the financial asset' current accounting value.

If the yield on securities is paid out as a coupon, the accrued interest or coupon portion shall be added to the amount conforming to the period of time from the starting date of such coupon calculation until the date of Fund's net asset value calculation.

7.1.4. Valuation of Equity Securities

The value of equity securities quoted on stock exchanges or other regulated market is based on the last published market prices known to the Custodian.

Equity securities not traded on stock exchanges or other regulated markets shall be valuated at their acquisition value. In accordance with the prudence principle, such assets are valuated at the lower price, if known to the Custodian from transactions performed by its customers or in the market. Information on transactions performed in the market is available in official and public data sources (e.g., newspapers, news agencies).

7.1.5. Valuation of Certificates of Other Investment Funds

The value of certificates of open-end investment funds or other similar securities is based on the investment certificate's last available redemption price on the Fund's net asset value calculation day.

7.1.6. Valuation of Term Deposits

All term deposits shall be classified as financial assets held to maturity and valuated by adding accrued interest (which is calculated over the period from the last date of interest payment to the date of the Fund's net asset value calculation) to the principal amount of such term deposit.

7.1.7. Valuation of Derivatives

Derivatives quoted on stock exchanges or other regulated markets are valued at a price for which the instrument can be sold (the last purchase price at market close on the Fund's net asset value calculation day).

Over-the-counter derivatives that are not quoted on stock exchanges or other regulated markets are valued at their repurchase price or at compensating transaction price confirmed in writing by the partner on the day of Fund's net asset value calculation, or at a price that is

calculated on the basis of the market price of the underlying security. Compensating transaction is a transaction, which liquidates the derivative.

Securities futures shall be valuated at the exercise price on the respective stock exchange or the regulated market where the same have been concluded, as of the moment of the stock exchange closing on the date of the Fund's net asset value calculation.

Currency forwards shall be valuated at fair value applying the position-closing cost method. The fair value of a currency forward is the difference between the value of currency purchased and the value of currency sold, revaluated at the compensating forward rate as of the date of the Fund's net asset value calculation. Where the rate confirmed by transaction partner is not available, the transaction shall be valuated at a price that is calculated on the basis of the market price of the underlying security, i.e., applying the current exchange rate and the market interest rates.

SWAP (currency swap transaction) is an instrument that consists of two parts - spot transaction and currency forward transaction. Therefore, each part of the transaction is valued separately, applying methods used for valuation of the relevant instrument.

7.1.8. Revaluation of Assets in Currencies Other than the Base Currency of the Fund

Pursuant to the International Accounting Standards and International Financial Reporting Standards, assets in currency other than the Fund's base currency on the day of calculation of the Fund's net asset value shall be revaluated in the Fund's base currency at the news agency's "Bloomberg", "Reuters" relevant exchange rate at the close of the trading day.

7.2. Calculation of the Value of the Fund's Liabilities

The value of liabilities shall be calculated by adding up all payments charged to the Fund's account, including fees payable from the Fund's property to the Company, the Custodian, the Sworn Auditor and third parties, liabilities ensuing from the Fund's loans, and other liabilities.

Pursuant to the International Accounting Standards and International Financial Reporting Standards, liabilities in currency other than the Fund's base currency on the day of calculation of the Fund's net asset value shall be revaluated in the Fund's base currency at the news agency's "Bloomberg", "Reuters" relevant exchange rate at the close of the trading day.

7.3. Revenue and Expense Accounting

Revenues and expenses related to the accounting period shall be disclosed in the Fund's Statement of Investment Income, regardless of the date of receipt or payment thereof. **Accrued income shall only be included in the Fund's Statement of Investment Income if there is no doubt that it has been received.**

If the payment is delayed for more than 90 days or the solvency of issuer of a debt security or other debtor deteriorates so that the Company will not be able to receive back the principal and the interest of the debt, the Executive Board of the Company shall consider the issue of excluding the accrued income from the revenue and expense statement and creating special provisions for the accrued income.

7.4. Responsibility

The Company is fully responsible for conformity of calculation of the Fund's net asset value and the Fund's share value to the Law "On Investment Management Companies", the Prospectus, and the Fund Rules.

The Custodian shall control conformity of calculation of the Fund's net asset value and the Fund's share value to the Law "On Investment Management Companies", regulations of the Financial and Capital Market Commission, the Prospectus and the Fund Rules. Assets shall be valuated on the basis of information on condition of the Fund's property (cash accounts, securities portfolio and other property) supplied by the Custodian, and in accordance with procedures stated in Chapter 7 of the Prospectus.

7.5. Frequency of Determining the Fund's Net Asset Value and Disclosing Information on the Fund's Net Asset Value

The Fund's net asset value is determined each calendar month within 5 business days after the end of each calendar month.

Within five days of its determination, the Company discloses information on the Fund's net asset value determined for the last business day of each calendar month, and the information can be

obtained by phone calling Company's numbers stated in the Prospectus, or directly at the Company's or Distributors office, as well as on the Company's website: www.parex.lv.

8. INITIAL PLACEMENT OF INVESTMENT CERTIFICATES

The Company shall start the initial placement of the Fund's investment certificates after registration of the Investment Fund "Parex Baltic Real Estate Fund - II", founded by the IMJSC "Parex Asset Management", with the Financial and Capital Market Commission and after the booking of Investment Certificates with the Latvian Central Depository.

The volume of initial placement of the Fund's investment certificates is EUR 100,000,000.

– Investment certificates representing whole shares of the Fund can be divided with up to four decimals.

The period of initial placement of the Fund's investment certificates shall be 90 (ninety) days or up to the day when all investment certificates offered in initial placement are sold. Information about opening and closing dates for the initial placement shall be published on the Company's website www.parex.lv, moreover, the Company may additionally publish this information elsewhere.

After the closing date of the initial placement period for the Fund's investment certificates the issue shall be regarded as completed for the amount of paid-up investment certificates.

After the end of the period of initial placement of the Fund's investment certificates, but not later than within six calendar months after the closing date of the initial placement the Company plans to file an application with the OMX Riga Stock Exchange on inclusion of investment certificates of the "Parex Baltic Real Estate Fund - II" in the list of the Baltic funds.

8.1. Procedures for and Places of Submitting Applications for Purchase of Investment Certificates of the Closed-end Investment Fund

Applications for purchase of the Fund's investment certificates may be submitted at the Company's office at Republikas square 2a, Riga, LV 1010, tel. (+371) 67010810, fax (+371) 67010192 or by contacting Distributors.

Distributors of the Fund's investment certificates are:

- IMJSC "Parex Asset Management" address – Republikas square 2a, Riga, LV 1010 tel. (+371) 67010810, fax (+371) 67778622
- JSC "Parex banka" Republikas square 2a, Riga, LV 1522 tel. (+371) 67010000, fax (+371) 67010001

as well as

- branches and customer service units of the JSC "Parex banka". Addresses of branches and customer service units are available at the Company's office, by calling the JSC "Parex banka", or on the bank's website: www.parex.lv.

Applications for purchase of investment certificates of the closed-end investment fund may be submitted to the Company or the Distributors on each business day during their business hours.

Each investor can apply for an unlimited number of investment certificates that does not exceed the volume of initial placement.

The minimum initial investment in the Fund is EUR 5,000.

In order to apply for the Fund's investment certificates, the Investor needs to open current and financial instruments accounts and to fill out and submit to the Company or to the Distributor the application for purchase of investment certificates of the closed-end investment fund. By signing the Application the Investor certifies that he has studied the Prospectus and the Fund Rules and agrees to their provisions.

The application for purchase of Investment Certificates shall contain information stated in Paragraph 6.2 of the Fund Rules. In the application for purchase of investment certificates of the closed-end investment fund the Investor shall indicate at his discretion his preferred *purchase mode*: fixed number of investment certificates or designated amount of money for the purchase of investment certificates.

Applications for purchase of investment certificates of the closed-end investment fund are accepted and registered in accordance with the Fund Rules.

The Company shall be obliged to execute only accurately filled and prepared applications for purchase of investment certificates of the closed-end investment fund. The Investor shall be responsible for the accuracy and completeness of the stated information.

8.2. Methods for and Frequency of Calculating the Sales Price of Investment Certificates

The sales price of the Fund's investment certificates is the initial placement price of investment certificates, and it remains fixed throughout the entire initial placement period.

The sales price of an investment certificate consists of the initial Fund's share value and the sales commission.

The initial Fund's share value is EUR 1,000.

The commission for the sale of investment certificates is calculated as a percentage of the Fund's share value. According to Paragraph 2.1 of the Prospectus, the maximum sales commission is 5.0% of the Fund's share value. If the amount invested in the Fund by an Investor is EUR 500 000 or more, the commission for the sale of investment certificates is not applied.

8.3. Procedure for Settlements

Applications of purchase of investment certificates of the closed-end investment fund shall be executed in the order of their registration. Investment certificates are issued only against full payment of the price of certificates in cash.

In accordance with Paragraph 8.1 of the Prospectus, the Company or the Distributor calculates, depending on the *purchase mode* chosen by the Investor, the number of investment certificates corresponding to the designated amount of money or the amount of money corresponding to the designated number of investment certificates.

The Investor shall pay the price for investment certificates to the Fund's account with the Custodian after submission of Application for purchase of the investment fund's investment certificates to the Company or the Distributor during the initial placement period, or not later than within 5 business days after expiry of the initial placement period. If within the prescribed time period the relevant amount of money for purchase of investment certificates has not been credited to the Fund's current account, the application is considered to be void.

If the Custodian holds current and financial instruments accounts for the Investor, submission of the application for purchase of investment certificates of the closed-end investment fund to the Company or to the Distributor shall be equivalent to the order to purchase financial instruments. Upon the application for purchase of investment certificates of the closed-end investment fund, the Custodian performs cash and securities settlement. The Custodian debits from the Investor's account the amount of money necessary for purchase of investment certificates and credits it to the Fund's current account with the Custodian. After the receipt of money on the Fund's current account with the Custodian, the Company issues new investment certificates and immediately credits them to the Investor's financial instruments account with the Custodian.

If the Investor's current and financial instruments accounts are held with another account holder, the Investor shall personally credit the amount of money necessary for purchase of the Fund's investment certificates to the Fund's current account with the Custodian. At his discretion the Investor can receive, at the Company's office or by facsimile, or from the Distributor in accordance with the Distributor's prescribed procedure, a transaction confirmation containing the exact amount of money that the Investor shall credit to the Fund's settlement account with the Custodian.

The Company shall issue new investment certificates only after the Investor has credited to the Fund's current account with the Custodian the amount of money necessary for purchase of investment certificates. Investment certificates shall be credited to the Investor's financial instruments account within three business days after receipt of money on the Fund's settlement account.

Settlement for investment certificates is effected in the Fund's base currency (euro).

Other procedure for settlement with investment certificates may be agreed:

- upon mutual agreement between the Investor and the Company or Distributor;
- upon the Company's request, where the money to be invested in the Fund by the Investor exceeds 5% of the Fund's net asset value.

All expenses incurred by the Investor with regard to purchase of investment certificates (bank charges for operations with current and financial instrument accounts, etc.) shall be borne by the Investor. If the Investor fails to credit to the Fund's account with the Custodian the amount of money necessary for full payment of the price of investment certificates, the Investor shall cover all

costs and losses to the Fund incurred as a result of failure to execute the application for purchase of investment certificates of the open-end investment fund.

8.4. Secondary Circulation of Investment Certificates

The Fund's investment certificates may be purchased or sold in the over-the-counter market in accordance with provisions of the Law "On Financial Instruments Market". The Company does not determine prices for transactions with the Fund's investment certificates on the secondary market, and the Company shall not be held responsible for fluctuations on the secondary market in the price of the Fund's investment certificates it has issued.

After the end of the initial placement period the Fund's investment certificates will be put in public circulation in the regulated market – the Baltic funds list of the OMX Riga Stock Exchange.

8.5. Procedures and Rules for Repurchase of Investment Certificates

If data of material importance for the valuation of investment certificates stated in the Prospectus and documents enclosed thereto is incorrect or incomplete due to the Company's fault, the Investor shall be entitled to demand that the Company repurchases his investment certificates and reimburses him for all losses incurred thereof.

Such claim shall be lodged within six months from the date when the Investor has learned that such data is incorrect or incomplete and within three years from the date of purchase of such investment certificates at the latest.

An Investor shall submit to the Company a request to repurchase investment certificates in writing to the address provided in Paragraph 6.1, attaching documents that prove that an Investor has incurred losses due to the Company's fault by stating in the Prospectus or documents attached thereto incorrect or insufficient information, which is significant for valuation of investment certificates.

8.6. Conditions for Suspension of Repurchase of Investment Certificates

The repurchase of investment certificates may be suspended in cases when the Commission exercises its right to limit the Company's rights to manage the Fund's bank accounts, and in the event of liquidation of the Fund.

The repurchase of investment certificates is prohibited after the start of the Fund's liquidation.

Upon liquidation of the Fund, claims of the Fund's creditors and Investors shall be satisfied in accordance with procedures prescribed by the law.

9. DISTRIBUTION OF THE FUND'S INCOME

Income received from the Fund's property is reinvested in the Fund. The Investor participates in distribution of income derived from transactions with the Fund's property in proportion to the number of investment certificates owned.

The income of the Investor is reflected in the increase or decrease of value of the Fund's investment certificates. The Fund's share value is determined on the last business day of each calendar month in accordance with the RL legal acts and provisions of the Prospectus and the Fund Rules.

In accordance with Paragraph 5.3 of the Prospectus, the Executive Board of the Company once a year has the right to resolve on reduction of the volume of the Fund's issue and partial cancellation of the investment certificates. The Latvian Central Depository, following the procedure set out in LCD Regulation No.2 "On recording the issue of financial instruments", performs partial cancellation of the investment certificates.

The Fund's income shall be disbursed in the Fund's base currency.

Fund's investment income and realised investment gain shall be paid to the Fund's investors after the liquidation of the Fund, except for particular circumstances referred to in Paragraph 5.3, when the Company has passed a decision on reduction of the volume of the Fund's issue and partial cancellation of the investment certificates, which does not exceed the Fund's realised increase in the investment value. Liquidation proceeds shall be distributed to the Investors in proportion to the number of investment certificates held.

10. LIQUIDATION OF THE FUND

The liquidation of the Fund shall be conducted in accordance with the Law "On Investment Management Companies".

10.1. Procedure for Liquidation of the Fund

Within a month from approval of the Fund's latest annual report audited by the Sworn Auditor after the 7th calendar year from commencement of the Fund's activities, the Executive Board of the Company upon its own initiative shall convene the general meeting of the Fund's investors which resolves on:

a) the liquidation of the Fund, or

b) pro-longation of the Fund's activities and necessary amendments to the Fund's prospectus.

If the resolution on prolongation of the Fund's activities is passed, the Fund's liquidation is not commenced, and the Executive Board of the Company is responsible for the necessary amendments to the Fund's Prospectus and their registration with the FCMC.

If the resolution on the Fund's liquidation is passed, the Company itself performs the functions of the Fund's liquidator.

If the Company does not initiate the liquidation of the Fund within a month from the day when the liquidation should have been initiated, the Commission shall appoint the Fund's liquidator. Such Liquidator shall have all the same rights as the Company if it was performing the liquidation.

10.2. Liquidator of the Fund

The Liquidator shall act in the interests of creditors and Investors.

The Liquidator is fully liable to Investors and third persons for losses caused during the liquidation, if the Liquidator deliberately or inadvertently breaks the "Law in Investment Management Companies" or the Fund Rules or negligently performs his duties. The Liquidator shall have the right to take only those actions that are related to the liquidation.

The Liquidator shall have the right to take only those actions that are related to the Fund's liquidation. During the liquidation the distribution of the Fund's income to the Investors, as described in the Prospectus, is not allowed.

The Liquidator shall immediately inform the FCMC about the initiation of liquidation and shall publish an announcement to that effect in the official periodical "Latvijas Vēstnesis".

The announcement about the liquidation shall contain information about the Liquidator, place and deadline for submission of creditor's claims. The deadline for submission of creditor's claims shall be at least three months from the date of publication of the announcement.

Once a month the liquidator shall submit to the FCMC the liquidation progress report.

10.3. Sale of the Fund's Property

After initiation of the liquidation and publishing the liquidation announcement, the Liquidator shall organise and perform the sale of the Fund's assets, except for the cash in the Fund.

10.4. Liquidation Expenses

During the liquidation process the Liquidator shall have the right to cover the liquidation expenses from the liquidation proceeds.

The liquidation expenses shall not exceed 2 percent of the liquidation proceeds.

10.5. Distribution of Proceeds from the Sale of the Fund's Property

The Liquidator shall distribute the proceeds derived from the sale of property of the Fund in liquidation as well as the cash in the Fund (liquidation proceeds) in the following order:

- claims of the secured creditors;
- claims of creditors who lodged their claims within the term prescribed in the liquidation announcement;
- claims of creditors who lodged their claims after the term prescribed in the liquidation announcement but prior to distribution of the liquidation proceeds.

If liquidation proceeds are insufficient to satisfy the above claims, unsatisfied claims shall be satisfied from the property of the Company, except for the claims incurred after the expiry of the Company's management rights.

The remaining liquidation proceeds shall be distributed to the Investors in proportion to the number of investment certificates held.

Announcement about the distribution of the liquidation proceeds as well as time of payment the Liquidator shall publish in the official press "Latvijas Vēstnesis".

All payments to creditors and Investors shall be made in cash in the Fund's base currency – the EUR.

Liquidation proceeds payable to the Investors are transferred to the account specified in the Investor's Application for purchase of investment certificates or other account specified by an Investor within 30 days from approval of the Fund's liquidation financial statement.

The Liquidator shall be responsible for submitting the notice to the FCMC about completion of the liquidation and the final liquidation statement within 10 days after completion of the liquidation.

11. TAXES AND DUTIES

The Company hereby gives a general survey of tax legislation of the Republic of Latvia as of the moment of registration of the Prospectus and bears no responsibility for procedures of tax application to each specific investor. The Investor should contact a tax advisor to clarify questions concerning procedures of tax application.

11.1. Application of Corporate Income and Individual Income Tax

A fund, which is set up in accordance with the Law "On Investment Management Companies", is not subject to corporate income tax, thus, the Fund's income is not subject to corporate income tax.

The Investors shall independently pay their individual income tax or corporate income tax on the relevant part of income in accordance with procedures stated by the RL Law "On Individual Income Tax" and the RL Law "On Corporate Income Tax".

According to the RL Law "On Individual Income Tax", no individual income tax is levied on income from the sale of investment certificates.

According to the RL Law "On Corporate Income Tax", no corporate income tax is levied on income from the sale of investment certificates in public circulation.

According to the RL Law "On Corporate Income Tax" and the RL Law "On Individual Income Tax", no corporate income tax or individual income tax is levied on non-resident income from the sale of investment certificates.

11.2. Application of real estate tax

The real estate owned by the Fund is subject to real estate tax. The real estate tax amounts to 1.5% of the land's cadastral value and 1.5% of the balance sheet value of buildings and structures.

The Company shall have the right to compensate from the Fund's property tax payments made for transactions with the Fund's real estate registered in the name of the Company.

12. CERTIFICATION OF AUTHENTICITY OF INFORMATION INCLUDED IN THE PROSPECTUS BY THE EXECUTIVE BOARD OF THE COMPANY:

"We hereby certify that information contained in this Prospectus is authentic, and no facts that might be detrimental to the interests of possible Investors have been concealed."

IMJSC "Parex Asset Management" Chairman of the Executive Board	IMJSC "Parex Asset Management" Member of the Executive Board
_____ /R.Idelsons/	_____ /E.Makarovs/

APPENDIX. SECOND ISSUE OF INVESTMENT CERTIFICATES

The Company shall start the initial placement of the second issue of the Fund's investment certificates after amendments to the Prospectus of "Parex Baltic Real Estate Fund – II" founded by IMJSC "Parex Asset Management" have been registered with the Financial and Capital Market Commission and investment certificates have been booked with the Latvian Central Depository.

The volume of the second issue of the Fund's investment certificates is EUR 75 000 000.

The initial placement period of the second issue of investment certificates shall last for 90 (ninety) days or until all investment certificates offered on initial placement are sold, provided it does not exceed 90 days. Information about opening and closing dates for the initial placement shall be published on the Company's website www.parex.lv, moreover, the Company may additionally publish this information elsewhere.

After the closing date of the initial placement period for the Fund's investment certificates the issue shall be regarded as completed for the amount of paid-up investment certificates.

The procedure and places for submission of Applications for purchase of investment certificates of the closed-end fund are described in Paragraph 8.1 hereof.

The sales price for investment certificates shall consist of the:

- nominal value of the Fund's investment certificates EUR 1,000;
- share premium EUR 25;
- commission for sale of investment certificates, calculated as a percentage of the sum of the nominal value of the Fund's investment certificates plus the share premium. The maximum commission shall not exceed 5.0%.

The settlement shall be governed by the procedure described under Paragraph 8.3 hereof.