

Investor Report
Mountain View Apartments





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South facing view from the development



The opportunity at a glance

- We are offering luxury apartments in the greenbelt area of the capital, one of Sofia's fastest growing quarters. Investment from multinationals is flooding into this area, which is projected to have a significant impact on real estate values.
- The project has undergone rigorous due diligence, and the documents and contracts have been approved by independent UK and Bulgarian lawyers to ensure clients are entering a watertight arrangement.
- Terms and price have been negotiated on behalf of the client to offer a robust investment opportunity.
- Payment schedules are favourable, and purchase price below the market value, to maximise return of investment.
- Each apartment will be finished to a high specification and have private balconies.
- There is limited room for expansion in residential areas of Sofia and demand for premium apartments of this kind is high.
- Strong rental and reselling prospects.
- Bulgarian property prices are currently some of the lowest in Europe, but the growth rate is high, with property prices rising by more than 30% last year.
- Bulgaria is scheduled to join the European Union in 2007. Historically, this has had a significant impact on the value of real estate (for example, Ireland, Croatia, Poland and Czech republic).
- The Bulgarian currency is stable and linked to the Euro.
- The economy is strong, and the government is committed to building a sound infrastructure and implementing systems that will enable the country to capitalise on its EU membership.



Overview

Over the past three years Bulgaria has had more media coverage than any other Eastern European country, and has been cited as the most dynamic and promising emerging market in Europe. So, what is behind the snowballing interest in this eastern European state?

Economically, Bulgaria is growing from strength to strength. Its knowledge and skill base rank with the world's best for technology, engineering and science disciplines. It is second only to the US for the number of certified professionals per capita (the UK being sixth), and third in the world for certified IT professionals per capita (eighth globally in absolute terms).

Labour costs are one tenth of those in the European Union, whilst productivity is well above EU member states and EU ascension countries. Consequently, key multinationals have already established themselves in the capital city, Sofia, further driving market growth.

As well as the significant inward investment from European and US corporates, Bulgaria has experienced a massive increase in tourism over the past five years. It is a country of outstanding beauty with rustic villages steeped in history and almost 400 miles of sandy coastline. In addition, almost half of its territory is occupied by picturesque mountain ranges.

Politically, Bulgaria is stable, currently being run by a unified coalition government focused on modernising the country's infrastructure and tourism in preparation for opening their markets to the rest of the world.

On the ground, income levels are increasing, unemployment is at 3%, the standard of living is continually improving and purchasing power is on the rise.

The European Commission has stated that Bulgaria will formalise their membership of the EU on 1st January 2007, at which point trade barriers will fall and the country will have access to markets of over 500 million consumers.

The impact of these factors on the real estate market has already been considerable. There has been continual and significant growth over the past three years and, with Bulgaria imminently joining the EU, value of real estate is projected to continue double-digit growth over the next five years. Recent statistics provided by the Real Estate Market Index (REMI) measured a sales increase during 2005 of 43.3 points, equating to almost 30%.

As a result of the dramatic increase in tourism, real estate on the coast and in the ski resorts has seen a sharp rise. Sofia, which is reportedly growing economically and geographically faster than any other former East European capital, is earlier on the growth curve and is projected to exceed coastal and mountain property values over the next three years.

Within this context, MHK International is pleased to present Mountain View development in the heart of one of Sofia's emerging business districts.



North facing view from the development

The investment opportunity

We are offering premium urban apartments in the University area, one of Sofia's greenbelt districts, situated between the city centre and the fastest growing area of Sofia. This three-block development will consist of 250 apartments, of which the final phase is scheduled for completion in September 2008. This part of the city neighbours the primary retail district of Sofia and is set to become the new business quarter; already attracting multinational companies due to its excellent links and proximity to the city and airport. In addition, this area stands to benefit most from the Olympic bid investment. The high density of university graduates and business professionals ensures a strong rental market.

The living spaces vary in size from 35 square meter studios to 235 square meter suites with roof terraces. All apartments have one or two balconies. The views are of Vitosha Mountain on one side and the city centre on the other. The rooms have been designed for modern living and interiors will be finished to a high specification.

Demand for high-end accommodation is increasing, while supply cannot keep up and is not expected to do so for several years. Consequently, there is a strong rental market for premium apartments in the area. This, coupled with the increasing ability for foreign and domestic buyers to obtain Bulgarian mortgages at below 6% interest rates, will have a positive impact on reselling prospects.

The unit price of the Mountain View development has been set at a level below market rate and capital growth is projected to be around 15% to 20% during the build program.

Key facts about development

- 250 apartments constructed in three phases.
- 50 apartments secured for MHK clients at competitive rates.
- Construction has already started.
- Prices start from around £25,000.
- Off-plan payment structure.
- Approximately 18-month build period.
- Payment schedule is 20%, 25% and 55%.
- Option to resell at any time before completion.
- Rental yields are expected to achieve 5 to 8%.



South facing view from the development

Key facts about the location

- Greenbelt district and the fastest developing area of Sofia.
- Opposite the National Sports Academy and 200 metres from the Winter Palace of Sports (candidate for the 2014 Winter Olympic Games).
- Adjacent to university and key foreign embassies.
- Excellent views of Vitosha Mountain or city from each apartment.
- The Vitosha skiing facilities 2km away.
- 18-hole BGA golf course less than 1km away.
- Sofia Business Park 4km away.
- Access to and from the Sofia Highway and Sofia airport 8km away.
- City centre 5km away.
- Within walking distance of two underground stations (under construction).



Accommodation

- Units include one-bedroom studios, one to two bedroom apartments, and two to three bedroom penthouse apartments with roof terraces.
- All apartments have balconies (with views overlooking the Vitosha Mountain or the city).
- All apartments are finished to a high standard (see full specification).
- Two low-noise elevators service the apartments.
- Services include 24-hour security, maintenance and facility management, cleaning, lift servicing, electricity for common spaces and gardening of surrounding areas.
- Broadband Internet, cable TV and telephone access.
- Walking distance to the two new underground stations.

Specification details

- All wiring and piping included (electricity, cable, central heating).
- Radiators throughout.
- Entrance doors - reinforced (quadruple lock) security doors.
- High quality internal doors complete with door furnishing.
- High quality double-glazed PVC windows.
- Floors: parquet throughout complete with wood edging, except kitchen and bathroom which will be tiled.
- Walls and ceilings: Smooth plaster and painted.
- Lighting: Spotlights throughout.
- Bathroom: Bath* and taps, toilet, basin and monoblock tap mixer sink, complete shower unit, extractor fan and fittings (towel rail, toilet roll-holder and mirror). Floor and wall tiles.
- Kitchen: Complete units with fitted sink and twin taps, and wall cupboards with built in lights. Space for refrigerator, freezer, oven and hob and dishwasher.
- Switches and sockets throughout.
- Internet, phone and cable TV access.

* Studios do not include a bath



Bulgaria profile

Bulgaria is situated in Southeast Europe and occupies the eastern part of the Balkan Peninsula. To the north, it borders with Romania, to the west with the Republic of Macedonia and the Federal Republic of Yugoslavia, to the east with the Black Sea, to the south and southwest with Greece and Turkey's European region.

Occupying an area of 110,000 square km with a population of around 8 million, Bulgaria's landscape is extremely diverse. With so much beauty in such a small country, the sights and sounds are both varied and accessible, from curious rock formations, valleys and gorges, stunning coastlines of sandy beaches and quiet coves, majestic mountains and hills, to crystal clear lakes and an expanse of woodland and pine forest.

Bulgaria has a continental climate with four distinct seasons. Summers are dry, hot and long with an average temperature of 27°C (81 Fahrenheit). Seawater temperature across the Bulgarian coast line ranges between 20°C and 23°C. Winters experience snowfall in the mountains, with an average temperature of -4°C in the ski resorts. There is a +2 hour time difference between Bulgaria and the UK.

The government of Bulgaria has a unified aim of political and economical stability. Currently Bulgaria is a European hotspot with a substantial average growth rate of 30%. The Bulgarian currency, Lev (BGL), has been pegged to the Euro at a fixed rate (1 Euro equivalent to 1.9558 BGL). The economy has grown at an average rate of 4.8% per year over the past 5 years (5.3% in 2004) while inflation has averaged 4%.

The privatisation process in Bulgaria is well advanced and there has been a steady increase in direct foreign investments to the country. The European Bank for Reconstruction and Development (EBRD) has recently invested over 1bn Euros in Bulgaria. According to the EBRD, the goal of these investments is fully and proactively to support Bulgaria in expanding activities for further development of the privatisation process and infrastructure.

A total of 5.3 billion Euros has been injected into the Bulgarian economy since 2000. UK investments alone were 50 million Euros in 2004. The latest report from Barclays Bank (November 2005) revealed that 488,400 Britons prefer Bulgaria as the place for overseas investment and the second home. The survey revealed that now Bulgaria is among ten of the most popular countries around the world for private and corporate investments.

Bulgaria had a legacy of corruption, which has been confronted head-on by the government under the close scrutiny of the EU. With EU membership for Bulgaria expected to commence within the next two years, eyes are on Bulgaria in anticipation of an economic transformation.

“Over the last several years Bulgaria has made impressive progress towards long-term stability and sustained growth. As a result of sound macroeconomic policies and deep structural reforms, average growth has reached the levels of the eight recent EU entrants (EU8) at close to 5 percent per year in 2000-04”.

World Bank, September 2005

“The world trade organisation forecasts that by 2010 Bulgaria will be visited annually by 20 million tourists – the forecasts make Bulgaria one of the world's most promising international tourist destinations. Married to the strong economic growth and political stability described below, Bulgaria continues to be a strong investment prospect in 2006.”

Blogspot

“More companies are also realizing that Central and Eastern Europe are competitive with Asia on price. An engineer in Bulgaria costs his employer less than his counterpart in China and India, according to data assembled by Ariba. And the competition for top talent is not as intense as in some of Asia's boomtowns.”

Business Week, December 2005



Key facts about Bulgaria

- Highly skilled, multilingual workforce at Europe's most competitive wages.
- Stable and predictable business and political environment, economic stability and strong growth.
- EU membership (set for 1st January 2007) will give access to markets of over 500 million consumers.
- Already a full member of NATO.
- The lowest operational costs and tax rates in a European market economy.
- Industrial goods traded duty free between Bulgaria and the EU, EFTA, CEFTA and Turkey.
- Flat corporate income tax rate of 15% (expected to decrease further in 2006) and free movement of capital.
- No restrictions on after-tax repatriation of profits.
- VAT exemption on equipment imports for investment projects over 5 million Euros.
- Annual depreciation of 30% for machinery & equipment, 50% for new equipment used in entirely new investment or expansion and 50% for software and hardware.
- 55 treaties for avoidance of double taxation and 52 agreements on mutual protection and promotion of foreign investment.
- Excellent climate, natural scenery, food and hospitality.
- Three-hour flight time from UK airports; increasing number of low-cost airlines flying to Bulgaria.

The Bulgarian property market

It is generally forecasted that property values in Bulgaria will continue to increase at a double-digit rate over the next three to five years largely because of mortgage lending potential.

Currently, mortgage loans are 5% of the total credit supply within the local banking sector. The increasing number of mortgage loans continues to stimulate the internal residential market. In developed markets, this rate is usually in the range of 15%.

In addition, there has been increased direct and indirect foreign investment in real estate. Bulgaria remains a country with extremely low real estate and land prices compared with Western European and most Eastern European states. Also, the costs associated with property transactions in Bulgaria are generally much lower than in developed economies. All properties are bought freehold and more than 90% of occupied residential property is owner occupied.

The harmonisation of Bulgarian legislation with that of the European Union means that the actual process of a real estate transaction in Bulgaria is not significantly different now to the procedure that exists in other European countries.

The real estate market in Bulgaria is, after ten years of transition from communism to a functioning market economy, just starting to approach the conditions that already exist within more developed countries with respect to the processes and market realisation. As a result it has achieved its status of an emerging and independent new branch of the European economy.

In 1994 The National Real Property Association (NRPA) was set up to protect the investor's private property rights, to create an efficient and equitable real estate market and to establish professional and ethical rules within the real estate profession.

In September 2002, with the support of the American Chamber of Commerce, NRPA introduced an index of real estate and investment activity of the market in Bulgaria. It is the first country in Central and Eastern Europe to establish such an index. This is considered a serious indicator of investment activity and business development.

With increased purchasing power, product and asset price inflation is expected. In Sofia, this is mainly due to strong investment in properties from Bulgarians living abroad, as well as foreign investors. The Real Estate Market Index reported a growth of 12.4% in the last quarter of 2005.

In a recent real estate review compiled by Colliers International they state that "in addition to increasing demand from foreign expatriates (and the expected increases in tourism) the next few years also looks set to be revolutionary in terms of demand from wealthier Bulgarians as many banks have now started to offer mortgage financing, and as a result the demand for quality houses and apartments will continue to gradually increase". Most of the recent rise in the Real Estate Market Index was indeed driven by the increase in the cost of luxury apartments by some 5-6%.

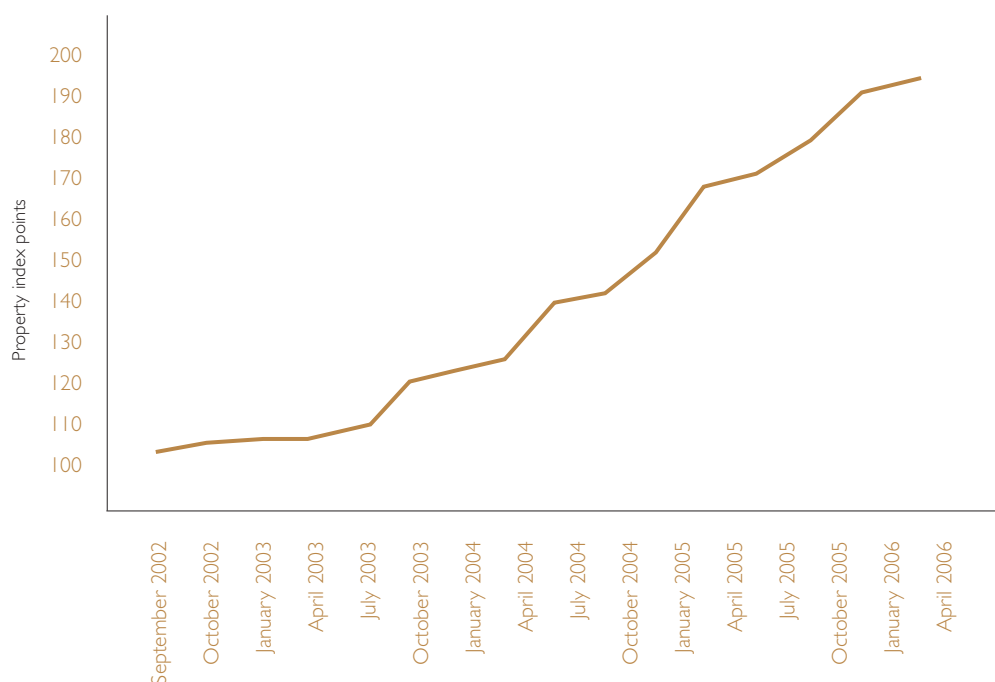
"The property market is going from strength to strength. The country is in negotiation with the European Union to join - it is receiving financial backing from the EU to help carry out the reforms required for memberships - which should expand the market even further and provide excellent capital growth for property bought at the start of the boom. And it is expected that property in Bulgaria to rise by 30% per annum over the next few years".

Ecademy, November 2005

"Bankers and other employees in London's financial industry are set to spend 3 billion pounds (\$5.3 billion) of their 2005 bonuses on buying more than 20,000 new homes in the next few months, according to a report published today. Some of the bonuses will be spent on buying real estate overseas in countries such as Bulgaria."

Bloomberg - February 2006

Bulgarian property sales 2002 to 2006



Source: The National Real Property Association, Real Estate Market Index

Real estate in Sofia

This vibrant financial and commercial centre is Bulgaria's largest city, home to the Bulgarian National Bank, the Bulgarian Stock Exchange, as well as some of the country's largest commercial banks (such as Bulbank, DSK Bank and the United Bulgarian Bank). The city accommodates nearly a quarter of the entire country's population.

Manufacturing, construction, trade and transport are the primary sectors of the local economy. Increasingly, Sofia is attracting attention as an outsourcing location for Western European and American multinationals. Sofia is also the headquarters for major Bulgarian and international companies operating in Bulgaria and Eastern Europe. Unemployment figures in 2005 stood at 3%, compared to average European levels at 10%.

Sofia is tackling congestion challenges by improving the infrastructure (which includes a major new highway and bypasses) and transport links, including an underground railway network, which is expected to be operational by the end of 2006.

Over the past 12 to 18 months there has been a trend towards property investment in the capital. As a result the real estate market in Sofia has achieved growth of up to 100% during this period. Residential areas close to Sofia's central business district have limited room for expansion as the EU ecological and preservation standards restrict mass development. As a result, these areas are experiencing highest demand, particularly for premium accommodation which is in limited supply. Suburbs are expected to develop, and properties close to the central areas are expected to increase in value.

Newly built properties have become the preferred option compared with the traditional purchase of renovated, older apartments. The first half of 2006 has seen an increase in the number of residential developments sold off-plan, expected to be delivered on the market within six to twelve month's time. Mortgage-financed purchases also gained momentum during the period. One and two bedroom apartments currently register the highest demand.

Property prices are still considered to be in their infancy stages of growth in comparison to other European cities.

"Spain and France are still popular - but probably not as much as they used to be because of these new countries... More and more people are thinking about buying in places such as Croatia and Bulgaria...both Sofia and the skiing areas are going to be good investments."

The Independent, January 2006

"Bulgaria has ranked first in the world for 2005 in the amount of investments, compared to the GDP, a report by the World Bank states. For investors, there is a clear appeal in the Bulgarian capital, Sofia. When the nation accedes to the European Union in 2007 there is much confidence that the capital will vie with the likes of Prague and Berlin as a base for the central European offices of many multi-nationals. The result would almost certainly be price rises in apartments and a booming corporate rental market. Meanwhile, the city is also surprisingly close to many long-standing and now newly refurbished and increasingly popular ski resorts."

Business, December 2005

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The Independent, March 2005

Comparison of average property prices in prestigious areas of Sofia, London and Madrid

Prestigious Residential Areas	Sofia		London		Madrid	
	Euro	GBP	Euro	GBP	Euro	GBP
Studio	36,000	30,000	235,000	163,000	170,000	117,000
One bedroom	65,000	45,000	390,000	270,000	220,000	153,000
Two bedrooms	90,000	62,000	790,000	547,000	320,000	222,000
Three bedrooms	130,000	90,000	1,030,000	714,000	780,000	541,000



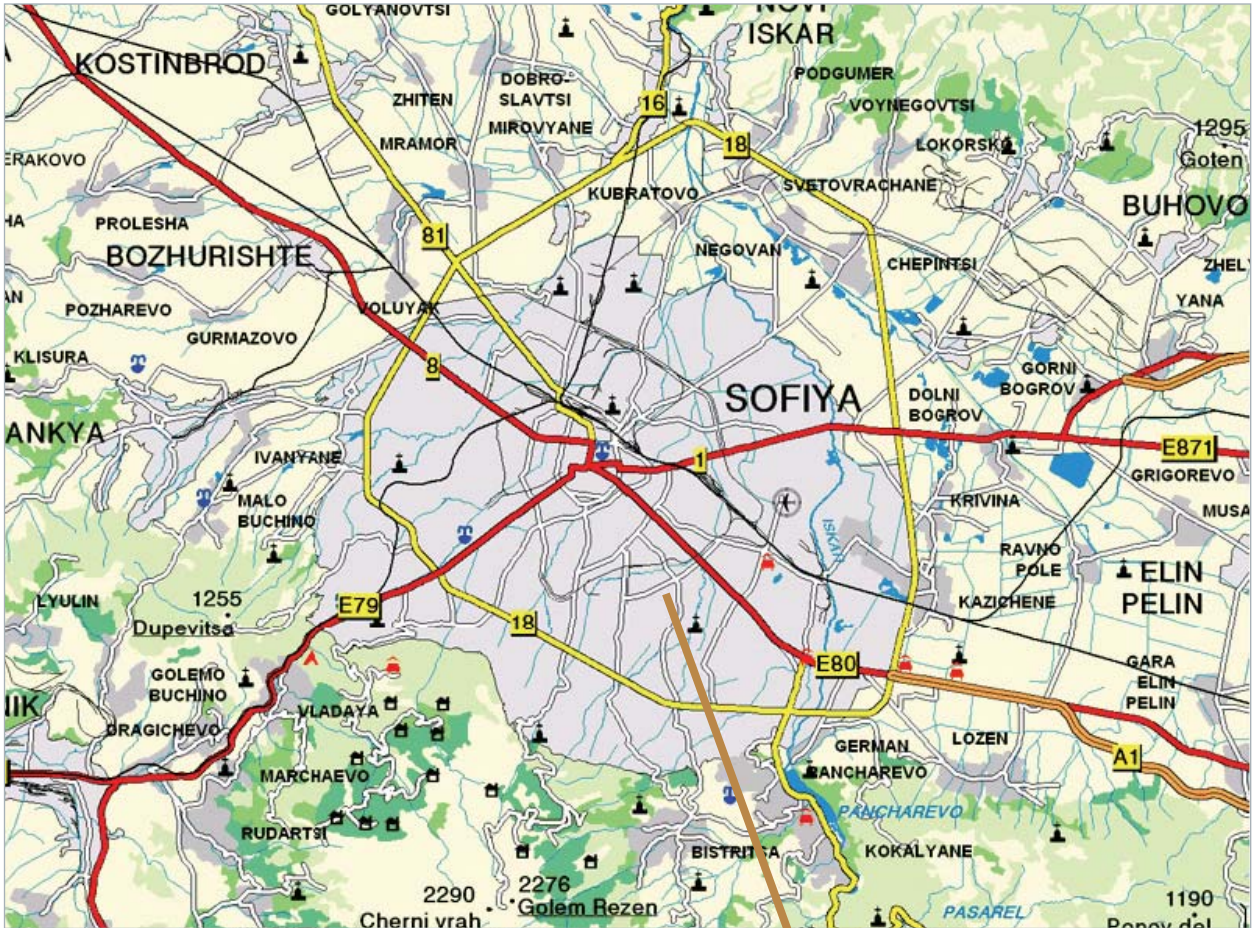
Key facts about Bulgarian property market

- The government has put in place proposals to relax non-national property ownership laws, enabling foreigners to buy land and property quickly and easily.
- Tourism industry has grown rapidly in the last couple of years.
- Property prices have risen by 60% in last two years.
- Prices expected to continue to rise at double-digit rate for the next three to five years.
- Precedence set by other pre-accession countries.

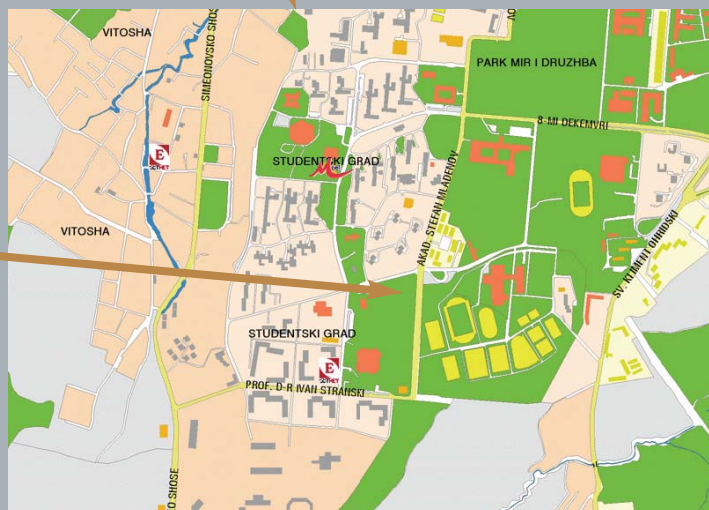
Key facts about Sofia

- Sofia is the fastest growing new economy in Eastern Europe.
- The economy is booming with unemployment at less than 3%.
- Imminent accession to the EU has meant an influx of diplomatic staff and multinational companies.
- Multinationals that have moved into Sofia over the past few years include Nestle, Cameron Mckenna, Coca Cola, Intel, Allianz, Citibank, Shell, Mobitel, Cable & Wireless, British Gas, Hilton, Raddisson, Danone, Interbrew, Heineken, Kraft foods, Siemens, BMW, Porsche, Hyundai and Nokia.
- Trade with the US and Foreign Direct Investment reached record levels in 2005.
- The city has a population of 2 million with the average age of the population being 38 years.
- City living means all year round rental potential.
- High quality properties in good areas are in limited supply.
- Located 550m above sea level, Sofia is the highest capital city in Europe.

Location map



Mountain view apartments





Purchase procedure

Payment structure for Mountain View, Sofia has been negotiated as follows:

- 1,000 Euros on reservation - This fee is refundable within 7 days
- 20% on Exchange of contracts within 21 days (less reservation fees)
- 25% on apartment completion, December 2006
- 55% on final completion
- Possibility of 70% mortgage on completion

Outline of Purchase Procedure

- 1 If you wish to reserve an apartment, complete and print off the 'Reservation Form' (included with the specification details) and fax to MHK International on +44 (0)7092 316 310, specifying which apartment number(s) you are interested in.
- 2 Once we receive your completed reservation form, we will ensure that the number and type of apartment(s) you have requested are reserved in your name. Apartments will be reserved on a first-come first-served basis and will be provisionally reserved for 48 hours.
- 3 During this period you will be referred to a solicitor who will guide you through the process.
- 4 We will also provide you with the details of our Client Bank Account and will request a deposit of 1,000 Euros reservation fee per apartment (NON-REFUNDABLE after 7 days).
- 5 Once your reservation funds have been acknowledged, you will be required to sign a Power of Attorney (POA) agreement with a Notary solicitor.
- 6 Upon signing the POA agreement, your solicitor will prepare the 'Contract of Sale', which will include all the precise terms of the sale.
- 7 You will receive a copy of the 'Contract of Sale' to review before the solicitor signs on your behalf.
- 8 An arrangement for the first 20% deposit, less the reservation fee needs to be made within the 21-day period of reservation through the solicitor to exchange contracts, which will be forwarded to the developer.
- 9 Once you have paid the 20% deposit, you will receive a copy of the signed 'Contract of Sale'.
- 10 You will then be required to make a further payment of 25% at the second stage (around December 2006).
- 11 Upon completion, you will be required to pay the remaining 55%.
- 12 Alternatively, as each apartment comes with re-assignable contracts you have the option to resell the property anytime after exchange.
- 13 Mortgage finance of around 70% of the contract price can be obtained from our associate financial institutions and finance agreements will be in accordance with the institutions' prevailing policies, terms and conditions.



Disclaimer

Information provided by MHK International Ltd and related information is based on current market conditions and expectations.

Whilst MHK believes the information to be accurate, the information should not be relied upon by any potential purchaser in making a decision to purchase property or for any other reason.

Intending purchasers should instead satisfy themselves by physical inspection of the property (or site) in question or otherwise as to the accuracy of the information including wherever possible requesting advice from a solicitor (to check the plans and specifications before exchanging contracts) and other professional advisers.

Consequently, no information presented in these particulars and/or displayed on the MHK International Ltd web site (or any linked site) constitutes or forms part of a contract or a binding legal obligation on the part of MHK International Ltd.

No person in the employ of MHK International Ltd has the authority to make or give any representation or warranty in relation to the investments.

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Any areas, measurements or distances are approximate only.

The text, photographs and plans are for guidance only and are not necessarily comprehensive.

Where possible we will ensure that we have conducted the due diligence to ensure all properties we market have all the necessary planning, building regulations or other consents.

A purchaser will enter into any Contract of Sale with

IVKOM EOOD. Whilst MHK International Ltd has done everything possible to ensure the experience, strength and credibility of that organisation, MHK cannot in any way be held responsible for any loss that a purchaser may suffer as a consequence of contracting with that third party developer.

For new built properties, it should not be assumed that MHK International Ltd have tested any services, equipment or facilities – purchasers must satisfy themselves by inspection or otherwise.

All 'off-plan' particulars are prepared from preliminary plans and specifications before the completion of each property and are intended only as a guide.

These may change or be changed during construction and final finishes could vary.

To reserve a property, you will need to be in a position to proceed to exchange of contracts within a set period of time and pay a reserve deposit.

In some cases, the reservation deposit is non-refundable – this will be made clear on every opportunity as requirements vary from developer to developer.

MHK International Ltd is not responsible for future changes in the market or market conditions and mortgage applications are subject to individual status.

Guarantees cannot be made that any particular applicant will obtain a mortgage on the investments or of the value of the mortgage they will be able to obtain.

Any rental guarantees offered on a development are by third parties and will form part of the Contract of Sale.