

Sales Memorandum

"Sunflower Plains"

Property Investment Project

(KRF Ltd)

September 2007

Strictly Private and Confidential

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www.sunflowerplains.co.uk/sample_webpage.php

www.sunflowerplains.com/sample_webpage.php

www.freedomtounwind.co.uk/sample_webpage.php

www.freedomtounwind.com/sample_webpage.php

1. Important Notice

This Sales Memorandum has been prepared to provide an overview of the Sunflower Plains Property Investment Project (KRF Ltd), in order to assist prospective purchasers in deciding whether they wish to commence negotiations which could lead them to making an offer. It does not in any way constitute an offer to subscribe for or purchase shares in the project and should not be used in connection with any prospectus.

The information contained in this Memorandum has been supplied by the shareholders and directors in good faith, however no assurances or warranties are provided regarding the completeness or accuracy of the information.

Any prospective purchaser must not rely on this Sales Memorandum and should make their own independent investigations, seek independent professional advice and form their own opinions as to the project's prospects.

The contents of this Memorandum are strictly private and confidential, intended for the sole use of the addressee and his advisers and for the sole purpose of evaluating the project as a prospective acquisition. It must not be copied or distributed to any third parties in any form without the prior written consent of the shareholders.

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2. Brief Overview

2.1 Nature of Project

Sunflower Plains is a "ready to roll" building project in a rapidly booming part of Bulgaria close to the Black Sea coast and new golf courses. The project includes just under 9,000 m² land, all permissions to build, reports and surveys, connections to utilities plus full architectural plans for 16 individual houses and site landscaping.

2.2 Sale Price and Profit

The project has a sale price of €434,000 (£295,200) with a minimum revenue from the 16 houses of €1,440,000 (£993,000), yielding a profit margin of €423,400 (£288,000). This is equivalent to 98% return on investment. ***The project has been designed so that all capital investment has already been made up front and all further expenditure for the buyer is to be found through off-plan sales of the properties.*** The building phase of the project is expected to take less than 16 months.

2.3 Further Revenue

Upon completion of the site, on-going revenue is available from the annual maintenance contracts for the properties and from a small on-site shop.

2.4 Support

We are able to provide a contract with a reliable building company guaranteeing the standard of work and the exact build-cost given in our cashflow forecasts. A contract is also available with a Bulgarian accountancy/solicitors practice that will manage all aspects of the sale process and tax issues. Our own office in Varna can provide day to day supervision of the building process, as well as a bilingual intermediary service between the UK based owners of the project and all relevant parties in Bulgaria.

3. The Package - What The Project Includes

3.1 The Registered Company

KRF Ltd is a company registered in the city of Varna, Bulgaria, with a share capital of 5,000 leva (£1,764) divided equally between two shareholders, Christopher Douglas Jones and Graham John King, both UK citizens and resident in England. KRF has two directors, as above, with Chris Jones having "managerial authority" (according to Bulgarian law) to act on behalf of the company. The company registration documents are provided in Appendix B.

3.2 The Land

KRF Ltd is the sole owner of a single plot of land of 8,693 m² on the edge of the village of Hadji Dimitar, in the municipality of Kavarna, in the region of Dobrich, northeast Bulgaria. The village lies on the main highway heading north towards Romania and parallel to the Black Sea coast. The village itself is 8 km (5 miles) from the town of Kavarna and 5 km (3 miles) from the nearest stretch of coast. The highway is of a reasonable standard with little traffic and provides quick access south to Kavarna, the golf courses and some of the better beach resorts and north to the conservation areas and lakes. A new fence and gates have been put up around the plot and a local villager has been placed temporarily in charge of guarding and maintaining the site. The land title deeds are provided in Appendix C.

3.3 Regulatory Permissions and Reports

3.1 Unfortunately Bulgaria is still an extremely bureaucratic country and a large amount of the work and cost involved in bringing this project to its current "ready to roll" state has been in tackling the necessary regulatory side of the business. The following lists the various permissions obtained in connection with getting the land ready to build on:

3.3.1.1 Permission To Bring 8 Plots Together Into Single Unit

The land was purchased by KRF as eight contiguous, individual plots with three separate owners. In order to obtain site-wide planning permission it was necessary to apply for permission to reclassify these as a single plot with the local land registry. (See Appendix D.1)

3.3.1.2 New Boundary Map For Single Plot

According to Bulgarian law a new, digitally calculated "skitza" or boundary map had to be drawn and registered with the local municipality. The new boundary was then marked with pegs by a registered body, the old fences were removed and a builder was paid to erect a fence around the entire plot. (See Appendix D.1)

3.3.1.3 Geological Report

A geological report was obtained certifying that the land was of a suitable composition to allow the building of houses. (See Appendix K.1)

3.3.1.4 Outline Planning Permission - Stage I

Outline Planning Permission in principle for the new, single plot. (See Appendix D.1)

3.3.1.5 Outline Planning Permission - Stage II

Outline Planning Permission with the land marked as being "in regulation" against the records in the land registry. (See Appendix D.1)

The following permissions were obtained following production of the architectural plans:

3.3.1.6 Building Visa For Plot

This is a simple document stating the allowable distances between houses and the distances between the houses and the boundaries of the plot. (See Appendix D.2)

3.3.1.7 Tachimetric Document For Site

3.3.1.8 Approval Of Site Plan

Municipal level approval of the architects site plan and vertical plan. (See Appendix F.5)

3.3.1.9 Approval Of Water And Sewage Plan For Site

Municipal level approval of the architectural plans from the water and sewage engineer. (See Appendix F.6)

3.3.1.10 Approval of Electrical Network Plan for Site

Municipal level approval of the architectural plans from the electrical engineer. (See Appendix F.3)

3.3.1.12 Contract With The Electricity Board For Supply

Contract to supply electricity to the site appropriate for 16 houses.

3.3.1.13 Contract With The Water Board for Water

Contract to supply water to the site appropriate for 16 houses.

3.3.1.14 Receipt Of Permission To Build Certificate For First House

This is the final document issued only when all previous 13 steps are in place. Please read section 3.4.4 to see the reasons why this is for the first house only.

3.4 Architectural Plans

3.4.1 The architect used in this project was Kavarna based Mrs Zheni Ilieva who is also wife of the chief architect of the Kavarna municipality. This has provided a useful contact when navigating the minefield of permissions and regulations in operation in Bulgaria.

3.4.2 The architect has provided full plans for the design of a single storey detached house of 92 m² floor space (100 m² including terrace areas). The design is such that it may also be used as a mirror image. The architectural plans include all documentation for the construction of the house prior to final fitting stage:

3.4.2.1 Architectural Overview

3.4.2.2 Structural Plans

3.4.2.3 Electrical Plans

3.4.2.4 Water and Sewage Plans

Artistic conceptions of the house are provided in Appendix E.
Copies of all architectural plans are provided in Appendix F.

3.4.3 We also have site-wide architectural plans for the following:

3.4.3.1 Site Plan Showing Positioning of Individual Houses, Shop, Car Park, Swimming Pool and BBQ Area

3.4.3.2 Water and Sewage Layout for the Site

Artistic conceptions of the site are provided in Appendix E.
Copies of architectural plans for the site are provided in Appendix F.

3.4.4 According to the Architects Guild in Bulgaria, fees are payable to the architect for every property for which the architectural plans are used. This is done on a sliding scale as follows:

Houses #1 to #2	100%	€1.700	(£1,170)	House #1 paid for
Houses #3 to #6	50%	€850	(£585)	each
Houses #7 to n	33%	€570	(£390)	each

The project includes architectural plans for *House #1* only. This has been done in order to establish that, *in principle*, a house of this design can receive all stages of approval up to the point of construction. This was also necessary in order to obtain exact plans which we could have quantity surveyed and upon which we could negotiate an exact quotation from a building company. This has been achieved.

Although in theory we could have had plans drawn up for the other fifteen houses, there were a number of factors that dictated against this course:

- i. this allowed either ourselves or a future buyer of the project to change the design of any of the other houses
- ii. the project was designed to pay purely the capital outlay up front and this was clearly an item that could be paid for out of sales
- iii. the site plan allowed for the three properties at the rear of the plot to be of different design, possibly two storeyed or of more expensive construction.

This decision does however mean that regulatory stage 3.1.14 will need to be performed after the new plans are drawn up and any purchase agreement would include a guarantee of our role in this process, if required.

3.5 Building Firm

Particular care was taken to locate a builder who met our criteria in respect of reliability, price range and standards of work. Starting with a list of some 16, all of whom had come recommended, we were able to whittle down the number by following up references, visiting existing constructions and obtaining quotes. The final four candidates were all on the Dobrich regional council's public tender list of accredited builders.

We have signed a contract with the winning candidate guaranteeing all aspects of the work including price, materials, standards of construction and time scales. The purchaser of this project is not bound by this contract and may use any building company of their choosing however one cannot overemphasise the amount of hard work and background knowledge required to identify a company with the necessary credentials.

3.6 Solicitor

We have identified two solicitors/accountancy practices that have regularly dealt with construction projects of this type and come recommended. Numerous (legitimate) loopholes in Bulgarian tax law allow for the avoidance of VAT and a minimisation of corporation tax liability however the procedures involved are moderately complex and the use of an accountant/solicitor who has experience of the necessary accounting structure is essential.

3.7 Our Involvement

Our own office in Varna is able to provide a range of services to facilitate the advancement and completion of the project. These include day to day supervision of the building process and the arrangement of all documentation required in accordance with local or national regulations. The bilingual intermediary service streamlines communication between the various entities in Bulgaria - builders, solicitors, municipality and other state bodies - and the UK based owners of the project. An office hours, internet based telephone line (no charge Skype service) ensures easy exchange of information on an hour by hour basis

3.8 Marketing

A website has been designed for the project and a number of domain names registered in preparation for marketing the houses on the internet:

www.sunflowerplains.co.uk, www.sunflowerplains.com,

www.freedomtounwind.co.uk, www.freedomtounwind.com.

The homepage is currently deactivated but the site may be previewed at:

www.sunflowerplains.co.uk/sample_webpage.php.

The website is fully "search engine optimised" so that it will be first page ranked by most of the major search engines when activated. Purchasers of the project may wish to use this site as part of their marketing or may simply take possession of the domain names if desired.

4. Finances of the Project

4.1 Capital Outlay to Complete the Project

The project has been designed in such a way that there will be close to zero capital outlay involved in taking the project to its completion. Also all elements which involve an unpredictable aspect of risk or delay, such as the granting of planning permissions, have already been covered. The conditions have been created whereby all further expenditure is covered by off-plan sales of the houses; only as houses start to sell, or possibly have all been sold, is it necessary to lay out down payments to builders or the other items listed in 4.2.

4.2 The Cost of Completing the Project

By far the majority of expenditure to complete the project is the cost of the building work. It is with this in mind that we have obtained a legally binding contract with a building firm to ensure a guaranteed price for construction. To build a single house of the type specified in the architectural plans will cost just under €32,000 (£22,000), bringing the total for 16 houses of identical design to €512,000 (£353,000). The current quote from the builder assumes that three houses will be under construction at any one time but there is room for further reduction should it be possible to start on a larger number.

As stated in 3.4.4, a per property fee is due to the architect as each house is ready to build. Assuming all houses are of the same design (or mirror image), the total fee will be €10,800 (£7,450) (calculated as €1,700 x 1 *plus* €850 x 4 *plus* €570 x 10).

The site plans as they stand allow for the construction of a communal swimming pool and barbecue area at a cost of €22,000 (£15,200), a shop of basic design with outdoor cafe at €10,000 (£6,900), a front wall and landscaping at €9,000 (£6,200). Further costs are involved in the completion of site infrastructure for sewerage and electrical supply at €14,000 (£9,660), a small pump and holding system for water at €5,000 (£3,450).

The total of the above items is €582,600 however any buyer of the project will also need to factor in legal and accountancy fees in Bulgaria plus any supervision services they wish to contract with our office in Varna.

4.3 The profit of the project

Assuming a build of 16 houses of the same design, the overall revenue at €90,000 (£62,000) per house will be €1,440,000 (£993,000). Taking a project purchase price of €434,000 with an overall expenditure of €582,600 (£401,800), this leaves a gross profit of €423,400 (£288,000) before legal and accountancy fees and taxes. As negligible capital outlay is required after purchase, this represents a return of 98% on initial investment.

The tax situation in Bulgaria is fairly loose and an accountant experienced in selling off-plan will allay a large percentage of possible loss to the project. The most common loophole used to avoid paying VAT (20%) is to complete on the contract before the premises have received permission of residence; only residential properties are liable to VAT. Corporation tax (19.5%) on overall profit is minimised by entering a lower price on the final title deed as is still the usual practice in Spain and Portugal. Most accountants advise a recorded value of 10% above the build cost of the property. A double tax treaty exists between the UK and Bulgaria so profit may be repatriated without incurring further revenue charges.

4.4 Cashflow

Cashflow is covered in Appendix A however it is important to make note of the issue of payment instalments when selling the houses. It is usual to state a schedule of staged payments in the preliminary contract. We would envisage a schedule which took 20% up front with at least two further payments: 40% on completion of shell work and a final 40% just before obtaining permission of residence. A number of schedules are possible and of course the smaller the up front deposit the more attractive the properties will appear to purchasers.

4.5 Maintenance contracts

Each house will pay a maintenance charge of around €7 per square metre per annum, this being the standard rate in Bulgaria. However we would foresee a number of additional services being available for which a higher maintenance charge would be levied. The complete list is given in Appendix L; these could either be optional or alternatively could apply to only the six more popular months of the year.

It is envisaged that the small shop and cafe on site is outsourced rather than run by the managers. This has been placed facing the highway so it may also serve passing traffic as well as residents. A rental service run from the office can also generate revenue and is a definite incentive when selling the houses. The practice of offering "guaranteed rental" has been largely discredited following the disclosure of a number of scams in the national press.

4.6 Time Scales

The time taken to complete a house of this design is usually under four months. The builder we have selected would normally work on a minimum of three houses simultaneously although he is capable of taking on up to ten if required. The winter months, especially December and January, can often slow building work considerably. The limiting factor will normally therefore be the sale of the houses as opposed to the actual construction. Developers of blocks of apartments often wait until every apartment is sold before beginning construction however because all premises here are detached dwelling units this approach is not necessary. Cashflow (see Appendix A) would dictate though that the houses be built at least in groups of three with maybe eight being an optimum. In all events we would reckon on the project taking a maximum of 18 months to complete (including all infrastructure) although 12 months would not be an unreasonable estimate if the selling process is conducted efficiently.

4.7 Design and Pricing of Houses

The houses have to a large extent been designed *down* to a price. It was considered a detached property below the psychological limit of €100 K would sell quickly. As a two bedroomed house, it is fairly spacious and is aimed very much at the holiday home market with a view to investment and possibly rental income. A comparison of every area and village is beyond the scope of this document and probably lends itself more to a guided visit, however a few examples follow. Two bedroomed apartments within the nearest golf resort are now being priced at over €200,000. Sokolovo, a village approximately the same distance to sea and golf courses as Hadji Dimitar, which has already become popular with Brits, is selling houses of a similar design for around €130,000. If one goes inland 30 km, it is possible to find an existing village house of the same dimensions for €50,000.

4.8 Building a Showhome

A common practice when building a complex of this type is to build the first house sold as quickly as possible and then rent back the property for one year as a showhome for the whole site. Various incentives can be offered to the first buyer such as a free furniture pack. It needs to be noted however that under the terms of the contract with the builder, a single house may cost more

than the contract price unless it can be arranged to build an additional two houses at the same time.

4.9 Reasons for Selling

Considering the high profit margin it might well be asked why we are not taking the venture forward ourselves. Until fairly recently this was our intention but it has become obvious to us now that having put together a magnificent team in Bulgaria our primary skills lie in locating cheap land in areas set to boom and then in tackling the bureaucratic labyrinth of Bulgarian planning regulations to add value to the resource. We believe we are now in a position to repeat this process with precision and, more importantly, speed in order to maximum return on our capital. It seems likely that the current property situation along the Black Sea coast will last only a three or four more years and the most effective use of our capital would be to run this process as many times as possible in this period rather than tying it up in building projects of longer duration.

5. Details of the Site, the Area and the Country

5.1 The Village and Immediate Area

Hadji Dimitar (sometimes written Hadzhi Dimitar) is a village on the main highway that passes parallel to the Black Sea coast up to the border with Romania. The village is 5 km (miles) inland and 8 km (5 miles) from the nearest large town, Kavarna. The nearest of the two international standard golf courses that are under construction is south west down the highway just the other side of Kavarna and less than 10 minutes by car. Local areas of interest include:

5.1.1 Cape Kaliakra (15 mins) - designated a nature reserve in its own right, this is a spectacular promontory jutting into the Black Sea giving views down the coast as far as Varna.

5.1.2 Durankulak and Shabla Lakes Conservation Area (20 and 30 mins) - further up the highway towards Romania are these two beauty spots where the inland lakes partly join the sea.

5.1.3 Beaches - a number beaches lie in easy reach including Rusalka (former Club Med resort), Tyulenovo, probably the nearest, and Krapets, clean and mainly deserted.

5.1.4 Kavarna marina - now being revamped with the construction of numerous luxury apartments around the bay.

5.1.5 Golf courses - both designed by Gary Player and both still under construction, the nearest, Thracian Cliffs, stands next to the sea on low lying plateaux and consists of an 18 hole course with a neighbouring 9 hole practice course. Numerous luxury complexes are planned for the immediate surrounds.

5.1.6 Airport - currently the nearest airport is in Varna approximately 66 km away. A new airport is scheduled to be built south of the golf courses and within easy reach of the resort of Albena.

5.1.7 Resorts - all of the more major resorts are some distance south from Hadji Dimitar. Albena is the nearest (30 mins) and also the most sophisticated of a number stretching towards Varna. The town of Balchik (25 mins), although not strictly speaking a resort, is a popular and picturesque harbour town with seaside bistros and restaurants.

5.1.8 Hadji Dimitar itself is a typical Bulgarian village of about 400 residents. Most of the houses are single storey, slightly run down but with a certain "ethnic charm". As is the case with many villages in the region, the population is generally from the older generation (the younger generation having fled in search of the high life of the city) although, somewhat surprisingly, a few newer houses are appearing in the neighbourhood marking the return of those who have made good in the city now looking for a rural retreat.

Out of interest also, the millionaire ex-mayor of Sofia has chosen this area to have his country retreat and has his own extensive property just up the road.

5.2 The Plot

The plot lies on the western edge of the village adjacent to the main road. The road itself is fairly quiet carrying minimal traffic north to Shabla, a smallish, agricultural town, and further on to the

Romanian border. A lane leading into the village passes along the western boundary of the plot. The land is even and has until recently been used for agriculture despite being within the pocket of the village. We have erected a new metal fence around the plot and put in gates from the adjacent lane. Of particular interest is a deep bore hole with attached pump which is in good working order. This is a particularly useful commodity in an area where water supply cannot be 100% guaranteed throughout the year especially when it comes to filling a swimming pool and watering lawns. Three phase electricity is also provided on the plot which currently runs just the pump although a contract has been signed with the electricity company to provide a single phase supply to 16 houses.

5.3 About Bulgaria

Bulgaria is a country just a little smaller than England situated in the south eastern corner of Europe, sharing a border to the south with Greece and Turkey, to the west with Macedonia and Serbia and to the north with Romania. The Black Sea runs the length of its eastern boundary. The population is just seven and a half million, one and a half million of which live in the capital Sofia on the western side of the country.

Since the introduction of the currency board in 1997 Bulgaria has been politically stable country with a developing economy whilst the preferential conditions and guarantees for foreign investors have generated excellent business opportunities and investment growth potential. Bulgaria real estate prices are substantially lower than other destinations in Europe but since joining the European Union in January 2007 there has been an unprecedented rate of growth in real estate which seems set to continue for at least three or four more years.

The majority of people who are buying property in Bulgaria are looking for holiday/second homes often with a view to retirement in later years although there are an increasing number of investors who are simply buying property with a view to making a capital gain in the short or long term. This increasing interest, along with other factors such as the rise in tourist numbers and increasing awareness of the opportunity, makes Bulgaria one of the hotspots of Europe.

Appendices