This document is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. **Prospective investors should also carefully consider Part IV of this document entitled "Risk Factors".**

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002 and he has given, and has not withdrawn, his consent to its circulation. The Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order, 1958 to the issue of Shares in the Fund. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Commission takes any responsibility for the financial soundness of the Fund or for the correctness of any statements made, or opinions expressed, with regard to it.

This document is drawn up in compliance with the AIM Rules and the Public Offers of Securities Regulations 1995 (as amended) (the "**Regulations**"). A copy of this document has been delivered to the Registrar of Companies in England & Wales for registration in accordance with Regulation 4(2) of the Regulations. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and there is no information the omission of which is likely to affect the import of such information. The Directors, whose names are set out on page 10, accept responsibility for the contents of this document accordingly, including individual and collective responsibility for compliance with the AIM Rules.

Application will be made for all of the Shares and Units to be issued pursuant to the Offer to be admitted to trading on AIM, a market operated by the London Stock Exchange. It is expected that admission will become effective and that dealings in the Shares and Units will commence on or around 14 March 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with larger or more established companies tends to be attached. AIM securities are not admitted to the Official List of the UK Listing Authority ("UKLA"). A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with his or her own independent financial adviser. Neither the UKLA nor the London Stock Exchange have examined or approved the contents of this document.

The Fund is governed by the Collective Investment Funds (Jersey) Law, 1988 as amended (the "**Funds Law**") and the subordinate legislation made thereunder. The Fund, the Manager, the Administrator, the Custodian and the Registrar have all obtained permits under Article 6 of the Funds Law from the Jersey Financial Services Commission (the "**Commission**") to operate as functionaries within the island. The Commission is protected by the Funds Law against liability arising from the discharge of its functions under the Funds Law.

THE BLACK SEA PROPERTY FUND LIMITED

(an investment company incorporated in Jersey with registration number 89392)

ADMISSION TO TRADING ON THE AIM MARKET

Offer of:
Sterling Units at £1.00 per unit;
Dollar Units at US$1.00 per unit;
Euro Units at €1.00 per unit;
Sterling Property Shares at 19.5 pence per share (indicative price)*;
Dollar Property Shares at 22.0 cents per share (indicative price)*; and
Euro Property Shares at 11.5 cents (euro) per share (indicative price)*.

* *The Offer Price of the Property Shares will be determined following the Closing Date based on the prevailing cost of the capital protection as determined by the Capital Protection Manager—see Part I under the heading "The Offer". The prices given above are as at 12 January 2005.*

Manager and Promoter
Development Capital Management (Jersey) Limited

Lead Distributor, Nominated Adviser and Broker
Collins Stewart Limited

Capital Protection Manager
F&C Management Limited

No public offering of the Shares or Units in any jurisdiction is being made. No action has been taken or will be taken in any jurisdiction that would permit a public offer of the Shares or Units in any such jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document. Persons into whose possession this document comes are required by the Fund to inform themselves about, and to observe any restriction as to, the Offer and the distribution of this document. This document has been approved by Collins Stewart Limited of 88 Wood Street, London EC2V 7QR for the purposes of section 21(2) of the Financial Services and Markets Act 2000. Collins Stewart Limited is regulated in the United Kingdom by the Financial Services Authority.

The minimum consideration which may be paid under the Offer by any person for Sterling Units or Sterling Property Shares is £30,000, for Dollar Units or Dollar Property Shares is US$100,000 and for Euro Units or Euro Property Shares is €40,000.

21 February 2005

CONTENTS

IMPORTANT NOTICE

Investors should take independent advice and should carefully consider Part IV of this document headed "Risk Factors" before making any decision to purchase Shares. Bulgaria should be regarded as an emerging market and the Shares accordingly subject to emerging market risks. THE PERFORMANCE OF THE CAPITAL PROTECTED SHARES AND THE RETURN OF CAPITAL TO HOLDERS OF CAPITAL PROTECTED SHARES IS NOT GUARANTEED. THE PROCEEDS OF THE ISSUE OF THE CAPITAL PROTECTED SHARES WILL BE INVESTED IN UK, EUROPEAN UNION OR US GOVERNMENT SECURITIES, OR IN MEDIUM TERM NOTES ISSUED BY ONE OR MORE BANKS HAVING A STANDARD AND POORS CREDIT RATING OF NO LESS THAN AA–. THE GOVERNMENT SECURITIES AND/OR MEDIUM TERM NOTES ACQUIRED WILL BE DESIGNED TO YIELD AT MATURITY A GROSS AMOUNT EQUIVALENT TO THE CAPITAL PROTECTED AMOUNT PAYABLE ON THE MATURITY DATE OF THE RELEVANT CAPITAL PROTECTED SHARES BUT THE RETURN OF THIS AMOUNT IS DEPENDENT ON THE PERFORMANCE OF THE RELEVANT PORTFOLIO OF GOVERNMENT SECURITIES AND/OR MEDIUM TERM NOTES WHICH IS NOT GUARANTEED.

Investment in the Property Shares will involve significant risks due to its gearing and the inherent illiquidity of its underlying assets and should be viewed as long term. Property Shares may not be suitable for all recipients or be appropriate for their personal circumstances. You should carefully consider in the light of your financial resources whether investing in the Fund is suitable for you. An investment in the Property Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise (which may be equal to the whole amount invested).

The Fund is not registered with the US Securities Exchange Commission under the US Investment Companies Act of 1940, as amended (the "1940 Act"). In addition, the Shares are not registered under the US Securities Act of 1933, as amended (the "1933 Act"). Therefore, the Shares may not be publicly offered or sold in the US or directly or indirectly to or for the benefit of a "US Person" as defined herein. A "US Person" as used herein means a "US Person" as defined under Regulation S of the 1933 Act, as well as the following: (1) a citizen or resident of the US; (2) a partnership or corporation organised or incorporated under the laws of any state, territory or possession of the US; (3) any estate or trust, other than an estate or trust which is not subject to US income tax on its income derived from sources outside the US and not effectively connected with the conduct of a trade or business within the US; or (4) any estate or trust which has a US Person as its executor, administrator or trustee. **Shares will be offered or sold within the United States only to Qualified Purchasers, as defined under the 1940 Act.**

The offering of the Shares has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to the Italian securities legislation and, accordingly, the Shares will not be offered or sold in the Republic of Italy in a solicitation to the public, and any sales of the Shares in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations. The Shares will not be offered or sold, and this document (and any related documentation) will not be delivered, in the Republic of Italy except to "Qualified Investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended ("Regulation No. 11522"), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 ("Decree No. 58"), or in any other circumstances where an expressed exemption to comply with the solicitation restrictions provided by Decree No. 58 or Article 33.1 of CONSOB or Regulation No. 11971 of 14 May 1999, as amended applies, provided, however, that any such offer, sale or delivery of the Shares or distribution of copies of this document (and any related documentation) in the Republic of Italy must be (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended, Decree No. 58, CONSOB Regulation No. 11522 and any other applicable laws and regulations; and (ii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Fund's Articles contain provisions designed to restrict the holding of Shares by persons, including US Persons, where in the opinion of the Directors such a holding could cause or be likely to cause the Fund some legal, regulatory, pecuniary, tax or material administrative disadvantage.

Collins Stewart, which is the Fund's nominated adviser for the purposes of the AIM Rules and broker and is regulated by the Financial Services Authority and is a member of the London Stock Exchange, is acting exclusively for the Fund in connection with the matters set out in this document. Collins Stewart will not be responsible to anyone other than the Fund for providing the protections afforded to customers of Collins Stewart nor for advising any other person on the arrangements described in this document. The responsibilities on Collins Stewart as the Fund's nominated adviser for the purposes of the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Fund or any Director or proposed Director or to any other person in respect of their decision to acquire Shares or Units in reliance on any part of this document. No representation or warranty, express or implied, is made by Collins Stewart as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

KEY INFORMATION

The following information is a summary of the key features of the Fund and should be read in conjunction with the full text of this document.

The Fund

- The Fund offers a unique, listed opportunity to invest in the Bulgarian property market and more particularly properties, predominantly holiday apartments and villas, to be built along Bulgaria's Black Sea coastline. Its objective is to provide Shareholders with a high level of long-term capital appreciation with the option of capital protection.
- The Fund is issuing sterling, US dollar and euro denominated capital protected Units and separate sterling, US dollar and euro denominated Property Shares (which do not benefit from capital protection). The Dollar Units are 85% capital protected after 5 years. The Sterling Units and Euro Units are 100% capital protected after 7 years.
- The Fund's focus will be on opportunities along the Bulgarian Black Sea coastline. The Fund will, however, have the flexibility to invest in residential property elsewhere in Bulgaria if suitable opportunities arise. The Fund will also have the ability to invest up to 20% of its assets (at the time of investment) in land, and in property-backed and joint venture projects (which could include ski resort and golf course projects) with local and other partners (including banks).

Investment strategy

- The Fund will invest "off-plan" i.e. it will contract to acquire residential properties that are not yet built, by committing to pay a discounted purchase price, on a future date, once the properties have been completed.
- Early stage, wholesale, off-plan investment offers the potential for significant returns (while also affording a degree of protection against any future downturn in capital values).

Designed to capitalise on an underdeveloped and rising market

- The Black Sea property market is evolving and forecast to experience continued capital growth over the planned life of the Fund's property investments (source: Colliers International), reflecting Bulgaria's improving economic position and demand from overseas buyers. Despite recent increases, prices remain considerably lower than in other parts of Europe, owing principally to the following factors:
    - Prices have historically reflected the purchasing power of Bulgarian nationals—GDP per capita is considerably below that of other European nations.
    - Mortgages were not widely available in Bulgaria before 1997 and the fledgling market still only offers a limited range of products at a relatively high cost of borrowing—and only to Bulgarian nationals.
    - Restrictions on the foreign ownership of property have deterred overseas purchasers.
- Not only is the Black Sea property market forecast to grow from a relatively low base, it is also expected to experience increasing demand, as a result of the following factors:
    - Tourism has grown strongly in Bulgaria, particularly along the Black Sea coast, and is forecast to increase from c3 million in 2002 to c11 million by 2020 (source: World Tourism Organisation).
    - Bulgaria's political and economic transformation of the last decade has been dramatic and is expected to result in Bulgaria joining the EU in 2007—attracting increasing foreign direct investment and leading to an improvement in Bulgaria's infrastructure and appeal.
    - Prior to or upon its accession to the EU, Bulgaria is expected to remove its existing restrictions upon the foreign ownership of property, harmonising its laws with the rest of the Union. Foreign purchasers have already caused prices to rise and are likely to have a greater impact once the restrictions are lifted.
- The ability and willingness of Bulgarian banks to finance residential development has increased significantly over the last 3 years. Consequently, there are a greater number of developers seeking to

build a greater number of properties than at any time in the past. Owing to the relatively underdeveloped state of Bulgaria's financial markets, however, many developers are restrained by their limited access to debt and/or equity finance to fund new schemes.

- Following consultation with both lending banks and developers operating in Bulgaria, the Property Investment Adviser believes that developers will be able to obtain more advantageous financing terms should they sell part of a scheme to the Fund concurrent with arranging funding—thus enabling the Fund to negotiate considerable discounts to Open Market Value and enabling developers to acquire and build-out pipelines more cost effectively.

- The Bulgarian off-plan market, like the Bulgarian residential market, is relatively underdeveloped compared, for example, to that in the UK. Similar principles apply but there are a number of key differences, which the Fund will seek to benefit from.

  — The deposit required upon exchange of contracts is higher in Bulgaria (10%–30%), compared to the UK (5%–10%), limiting the ability of small-scale, amateur purchasers to invest.

  — There are very few Bulgarian off-plan investors (the concept of buy-to-let does not exist) and far fewer international investors with sufficient expertise to source investments in Bulgaria than in the UK.

  — UK developers seek to generate an average profit margin of between 20% and 30% (subject to the relevant land acquisition price). In Bulgaria, owing to the relatively low cost of land, materials and labour, development profit margins might range between 100% and 300%—thereby enabling developers to grant larger discounts.

  — It is more difficult to gain access to the lending banks and developers, and therefore source investment opportunities, in Bulgaria than in the UK. The Fund will source deals via its Property Investment Adviser and its contacts in the region.

  — Without strong forward sales, banks will typically only lend between 60% and 80% of building costs, which should increase the willingness of developers to sell to bulk institutional purchasers such as the Fund.

- The discounts to Open Market Value to be obtained by the Fund will vary, deal by deal, depending upon a number of factors, including:

  — the number of properties purchased as a percentage of the entire development;

  — the length of time to completion;

  — any overage arrangement agreed with the developer, under which it may share in profits above agreed thresholds;

  — the size of the deposit;

  — the individual circumstances and financing requirements of the developer concerned; and

  — market sentiment and macro economic prospects.

The Bulgarian Black Sea coast

- The Bulgarian Black Sea coast is enjoying a boom in tourist demand. It enjoys a mild and pleasant climate. The average summer air and sea temperatures are 22°C and 25°C respectively. There are more than 240 hours of sunshine in May and September and more than 300 hours in July and August. Rainfall is low and the beaches are clean (8 EU Blue Flags).

- Low cost flights are becoming available to tourists visiting Bulgaria. British Airways and Bulgaria Air currently fly direct to Sofia. In addition, there are a number of carriers including Malev (the Hungarian carrier) and Czech Airways which operate indirect flights to Sofia. There are also direct charter flights to Varna, the country's third largest city and major Black Sea port.

Bulgaria's political and economic transformation

- Bulgaria's recent political and economic transformation has been dramatic. Only 6 years ago, following the fall of Communism in 1989, the country was still struggling to come to terms with its new free-market economy. The transition to a democracy had been difficult, hampered by political instability, corruption, a banking collapse and hyperinflation. Since 1997, however, with both international support from bodies such as the EU, IMF and World Bank and disciplined government, Bulgaria has emerged as a viable, new investment market.

- Though the political landscape is still evolving, all political parties are united by a common commitment to EU accession in January 2007. This common goal has effectively determined the political and economic agenda for the next 3 years and means that, with the attention of the international community focused upon it, Bulgaria's progress is unlikely, in the Manager's view, to be de-railed.
- With substantial funding available, a balanced budget, a privatisation programme promoting increased foreign investment and a strengthening economy, Bulgaria offers attractive investment opportunities and the prospect of strong investment returns over the next 5 to 7 years.

Initial investments

- The Manager has secured call-options in respect of c1,300 properties(1) to be built within three separate beachfront schemes in or near the Black Sea towns of Obzor, Shabla and Kavarna. The aggregate deposit payable on exercise of these options would be a minimum of €9.3 million, representing c12% of the gross assets to be raised on issue of the Property Shares (assuming full subscription).
- Pursuant to the call-options, the Fund will pay a price of €480 per square metre (increased in line with Bulgarian inflationary measures in the case of the Shabla and Kavarna developments), representing a premium to build costs of c20% and an approximate discount to Open Market Value of 50%(2). Under the terms agreed, the Fund will retain the first 20% of any profit generated above the Fund's purchase price and 30% of any profit generated thereafter, with the balance to be paid to the developer.
- Based on an aggregate deposit by the Fund of €9.3 million (20% of purchase price) paid upon exchange of the three options, were the Fund to sell the properties prior to completion for an aggregate price of €1,000 per square metre, it would generate a gross profit retained by the Fund (before tax and costs) of €22 million. This statement should not be taken as an indication that the properties will be sold at the stated price or at all.
- These options, secured by the Manager, will be transferred to the Fund immediately following launch in return for the Manager receiving Property Shares. At the minimum size of the Fund (€10 million on Admission), these Property Shares will be equal in number to 2% of the Property Shares of each class issued under the Offer and a further 3% of such Shares on securing the required construction consents for the Shabla and Kavarna developments. If the Fund is larger than the minimum, the percentage of Property Shares received will be reduced in proportion. These Property Shares will not be disposed of by the Manager for period of at least 3 years from Admission.
- The building consent process for the three sites initially requires conversion from agricultural status land and approval of building densities. The site at Obzor has been converted from agricultural land. Approvals have been applied for in respect of the Shabla and Kavarna sites. The Initial Property Options will not be exercised and the deposit paid until all required consents are obtained. For further details, see the paragraphs headed "Initial investments and current trading" in Part I and "Construction process" in Part II.
- The Property Investment Adviser has had discussions with developers of two other Black Sea coast developments where the developers would, in principle, be willing to enter into similar arrangements with the Fund.

Natural gearing on discounts

- The Fund will be "naturally" geared because it will gain exposure to property by paying percentage deposits. This gearing, which will be substantial, both increases the risks of investment and enhances potential returns (see Part IV entitled "Risk Factors").

(1) Based on an average unit size of 75 square metres and assumed build densities. Actual unit sizes and build densities may vary and accordingly the number of units may vary.

(2) Discount calculated based on the Strategic Adviser's assessment of residential property values as at January 2005. See Part III.

- On exchange of contracts, the Fund will typically pay a deposit of between 15% and 25% of the discounted Open Market Value. It will then seek to use this natural debt-free gearing, as well as the discounts it achieves, to generate capital gains by selling-on properties without ever completing.
- A property bought off-plan might change hands several times before completion. Having bought early, the Fund will not necessarily seek to crystallise the entire discount on a property by waiting until just before completion to sell. It may choose to sell properties at different stages throughout the development process—in the earlier stages to other professional investors, later on to companies or institutional portfolios who might require apartments to let and, nearer completion, to owner-occupiers (or long-term investors).

Maximising profits while minimising risk

- The Fund has three investment principles designed to ensure effective risk management:

  Principle 1—the ability to let

  The Fund will primarily acquire beachfront properties within 1 hour's transfer from either Varna or Bourgas airports on the Black Sea coast, which, once completed, will be suitable for letting (typically holiday apartments and villas).

  Principle 2—the discount

  The Fund will maximise the discount to the "as-if-built" Open Market Value agreed on exchange of contracts.

  Principle 3—diversification

  The Property Portfolio will be diversified in a number of ways, including by:

  — the number of apartments acquired as a percentage of each entire development;

  — type of property (i.e. 1 and 2 bedroom apartments and private villas); and

  — time to completion (a spread of completion programmes throughout the life of the Fund to protect against cyclical variations in the Bulgarian property market).

- By acquiring entire asset classes within developments, the Fund will seek to avoid competition with developers when selling-on investment properties.

Borrowings

- In addition to being highly geared through the effect of its deferred purchase commitments in respect of investment properties, the Fund may also be geared by mortgage borrowings to the extent that loans are drawn down to enable it to complete purchases of properties not sold prior to their completion. Mortgage borrowings will be limited to no more than 100% of the Fund's net asset value (at the time of borrowing).

Investment management and advice

- The Fund will be managed by Development Capital Management (Jersey) Limited, the manager of The Off-plan Fund Limited, a fund which invests in UK off-plan residential property. The Property Investment Adviser will advise the Manager on the investment of the Fund's assets in the Property Portfolio.
- The Fund has appointed Colliers International as Strategic Adviser. Colliers International will assess each property recommended to the Manager by the Property Investment Adviser. Having done so, it will submit a written appraisal to the Manager in respect of each proposed investment.

Life and distributions

- The Sterling Protected Shares and the Euro Protected Shares have a 7 year life expiring on 1 May 2012 when they will be redeemed. The Dollar Protected Shares have a 5 year life expiring on 1 March 2010 when they will be redeemed.

- The Property Shares will have a life of 5 years plus up to 2 further years for the planned realisation of the Property Portfolio. The life of the Property Shares may be extended by special resolution of holders of the Property Shares (requiring a two-thirds majority of those voting).
- The proceeds realised from the Property Portfolio will be available for reinvestment into further investment property (net of any performance fee due). The Board will, however, consider the distribution of capital profits on the Property Shares after the first 3 years of the Fund's life and at any time if the Property Investment Adviser does not believe there to be further attractive investment opportunities. Following the end of the fifth year of the Fund's life, the proceeds of sale of the Property Portfolio will be returned to Shareholders as determined by the Board.

Listing, valuations and the share buy-back policy

- The Fund will apply to AIM for admission to trading of the Shares and Units.
- The net asset value of the Shares and Units will be calculated quarterly.
- The Fund will have the ability to buy-back Property Shares in order to address any imbalance between supply and demand for them. Where it believes it to be in the interests of Shareholders as a whole, the Board may choose to utilise realised capital gains to fund share buy-backs where Property Shares are trading at a discount to net asset value.

Initial expenses and management fees

- The Fund will pay the Manager a structuring fee equal to 1% of the gross proceeds of the Offer in return for the structuring advice provided in connection with the Fund's launch. In addition, the Fund will pay the Manager an amount equal to 3% of the gross proceeds of the Offer. The Manager has, in return, agreed to meet all of the costs of the launch of the Fund including the costs of Admission, and legal, taxation, property consultancy and accountancy advice (but excluding the Manager's structuring fee). The structuring fee and 3% initial expenses will be allocated pro rata to each Share class, so that each class of Share bears an equal proportion of the launch costs of the Fund.
- The Manager will receive a management fee quarterly in advance of 2% per annum of the amount subscribed on the issue of Property Shares plus capital gains retained by the Fund for reinvestment in the Property Portfolio. The fees of the Property Investment Adviser will be met by the Manager.
- The Manager will also be paid a performance fee of 20% of any gains generated by the Fund's Property Portfolio in excess of a 10% compound per annum hurdle up to 100%, and 30% of any gains generated in excess of this amount. Interim payments of performance fee will be made during the life of the Fund based on cash proceeds of the sale of investment properties. In these circumstances, only 80% of the performance fee calculated will be paid, with the balance held in an escrow account pending the calculation of the overall returns on the Property Portfolio at the end of the planned 7 year life. The performance fee will be borne by the Property Shares.
- F&C Management, as manager of the Capital Protected Subsidiaries, will receive a first year structuring charge of between £100,000 and £180,000 (if the Offer is fully subscribed) and an annual management fee on a sliding scale of between 0.10% and 0.18% of the value of the Capital Protected Subsidiaries' assets. The structuring charge will be met from the proceeds of issue of the Capital Protected Shares and the annual management fee will be paid from income generated by the Capital Protected Subsidiaries.

Capital structure and capital protection

- The Fund's share capital comprises 3 classes of Property Shares (Sterling Property Shares, Dollar Property Shares and Euro Property Shares) and 3 classes of Protected Shares (Sterling Protected Shares, Dollar Protected Shares and Euro Protected Shares).
- The Property Shares and Units will be separately traded on AIM. The Capital Protected Shares will only be tradeable as part of a Unit.
- Investors may purchase Units and/or Property Shares. A Sterling Unit comprises 1 Sterling Protected Share and 1 Sterling Property Share and offers 100% capital protection after 7 years. A Dollar Unit comprises 1 Dollar Protected Share and 1 Dollar Property Share and offers 85% capital protection after 5 years. A Euro Unit comprises 1 Euro Protected Share and 1 Euro Property Share and offers

100% capital protection after 7 years. An investor who wishes to have greater exposure to the Property Portfolio and less capital protection, may choose to purchase additional Property Shares. An investor wishing to have no capital protection should purchase only Property Shares.

- The proceeds of the issue of the Capital Protected Shares will be managed by F&C Management and will be invested in UK, European Union or US government securities, or in medium term notes issued by one or more banks having a Standard and Poors credit rating of no less than AA-. The government securities and/or medium term notes acquired will be designed to yield at maturity a gross amount equivalent to the Capital Protected Amount payable on the Maturity Date of the relevant Capital Protected Shares **but the return of this amount is dependent on the performance of the relevant portfolio of government securities and/or medium term notes which is not guaranteed. The performance of the Capital Protected Shares and the return of capital to holders of Capital Protected Shares is not guaranteed.**

The Offer

- Up to €75 million is being raised by the Fund for investment in the Property Portfolio.
- The Fund will pay commission to distributors of 5% of the Offer Price of each sterling and dollar denominated Share sold, and 3% of the Offer price of each euro denominated Share sold. Additional commission of up to 5% of the Offer Price may be charged to investors by distributors of euro denominated Shares.
- Unless otherwise agreed by the Board, the Offer is conditional on a minimum of €10 million being raised for the Property Portfolio and a minimum of €0.5 million (or the relevant currency equivalent) for each class of Share. As at the date of this document the Fund has received subscription commitments of £1 million in respect of Sterling Property Shares conditionally on the minimum being raised.

Investors' attention is specifically drawn to Part IV headed "Risk Factors".

EXPECTED TIMETABLE

Closing Date for applications under the Offer	28 February 2005
Dealings in the Shares and Units expected to commence on or around	14 March 2005
CREST accounts credited and certificates in respect of Shares or Units expected to be despatched by	14 March 2005

DIRECTORS, MANAGER AND ADVISERS

Directors of the Fund
(all non-executive)

Melville Trimble (Chairman)
Evgeni Chachev
Roger King
Roger Maddock
The Hon. James Ogilvy

all of
BNP House
Anley Street
St. Helier
Jersey JE2 3QE

Manager and Promoter
Development Capital
Management
(Jersey) Limited
BNP House
Anley Street
St. Helier
Jersey JE2 3QE

Property Investment Adviser
Development Capital
Management (Bulgaria) plc
26, Mir Street
Block 2
5th Floor
Varna
Bulgaria

Capital Protection Manager
F&C Management Limited
Exchange House
Primrose Street
London
EC2A 2NY

Lead Distributor. Nominated Adviser and Broker
Collins Stewart Limited
88 Wood Street
London
EC2V 7QR

Administrator and Secretary to the Fund and Registered Office of the Fund
BNP Paribas Fund Services
Jersey Limited
BNP House
Anley Street
St. Helier
Jersey JE2 3QE

Auditors to the Fund
KPMG Channel Islands Limited
5 St Andrews Place
Charring Cross
St. Helier
Jersey
JE4 8WQ

Tax Adviser
Ernst & Young Bulgaria EOOD
National Palace of Culture
1 Bulgaria Square
PO Box 120
1463 Sofia
Bulgaria

Legal Adviser as to Jersey Law
Carey Olsen
47 Esplanade
St. Helier
Jersey JE1 OBD

Strategic Adviser
Colliers International (Bulgaria)
Limited
Business Park Sofia
Mladost 4, Build 13B
1715 Sofia
Bulgaria

Legal Adviser as to Bulgarian Law
PI Partners EOOD
National Palace of Culture
1 Bulgaria Square
P.O. Box 120
1463 Sofia
Bulgaria

Legal Adviser as to English Law
Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

Custodian
BNP Paribas (Jersey branch)
BNP House
Anley Street
St. Helier
Jersey JE2 3QE

Registrar
Capita IRG (Offshore) Limited
Victoria Chambers
Liberation Square
1/3 The Esplanade
St. Helier, Jersey

DEFINITIONS

In this document, unless the context otherwise requires, the expressions set out below bear the following meanings:

"Administration and Secretarial Agreement"	the administration and secretarial agreement between the Fund and the Administrator, a summary of which is set out in paragraph 6, Part VIII
"Administrator"	BNP Paribas Fund Services Jersey Limited, or any successor administrator of the Fund
"Admission"	the date of admission of the Shares and Units to trading on AIM in accordance with the AIM Rules
"AIM"	the market of that name operated by the London Stock Exchange
"AIM Rules"	the rules of the London Stock Exchange for AIM companies and their nominated advisers governing admission to and operation of AIM
"Applicable Price"	in respect of a Property Share, means the price per share determined by the Capital Protection Manager following the Closing Date
"Articles"	the articles of association of the Fund
"Assumptions"	the assumptions underlying the financial model as set out in Part VII of this document
"BPIT"	Bulgarian Property Investment Trust plc, registered in Varna, Bulgaria under company file number 1619/2004
"BSIT"	Black Sea Investment Trust plc, registered in Varna, Bulgaria under company file number 1549/2004
"Business Day"	a day, other than a Saturday or a Sunday, which is a bank business day in Jersey, Bulgaria and London
"Capital Protection Manager" or "F&C Asset Management"	F&C Management Limited
"Capital Protected Amount"	the Sterling Protected Amount, the Dollar Protected Amount and/or the Euro Protected Amount
"Capital Protected Share"	a Dollar Protected Share, a Sterling Protected Share or a Euro Protected Share
"Capital Protected Subsidiaries"	the Dollar Protected Subsidiary, the Sterling Protected Subsidiary and the Euro Protected Subsidiary
"Closing Date"	28 February 2005, or such later date, not being later than 30 April 2005 as may be determined by the Board
"Custodian"	BNP Paribas (Jersey branch)
"Directors" or "Board"	the Directors of the Fund
"Dollar Maturity Date"	1 March 2010
"Dollar Property Shares"	the dollar property shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Property Subsidiary
"Dollar Protected Amount"	the amount that each Dollar Protected Share will be redeemed at on the Dollar Maturity Date being equal to US$0.85 per share (subject to the risks referred to in Part IV)
"Dollar Protected Shares"	the dollar protected shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Dollar Protected Subsidiary
"Dollar Protected Subsidiary"	BSPF (Dollar) Limited, the wholly owned subsidiary of the Fund attributable to the Dollar Protected Shares
"Dollar Unit"	a Unit comprising 1 Dollar Protected Share and 1 Dollar Property Share

"Eligible Investor"	a person able to acquire Shares without violating applicable laws, including those concerning money laundering, and at the time of making the investment that (i) has knowledge, expertise and experience in financial matters to evaluate the risks of investing in the Fund; (ii) is aware of the risks inherent in investing in the Shares and the method by which the assets of the Fund are held and/or traded; (iii) can bear the risk of loss of their entire investment; (iv) holds Shares having a value equivalent to or greater than the Minimum Holding; and (v) meets any additional suitability standards as the Directors may, in their absolute discretion, impose from time to time in order to comply with applicable laws and regulation
"Euro Maturity Date"	1 May 2012
"Euro Property Shares"	the euro property shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Property Subsidiary
"Euro Protected Amount"	the amount that each Euro Protected Share will be redeemed at on the Euro Maturity Date being equal to €1.00 per share (subject to the risks referred to in Part IV)
"Euro Protected Shares"	the euro protected shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Euro Protected Subsidiary
"Euro Protected Subsidiary"	BSPF (Euro) Limited, the wholly owned subsidiary of the Fund attributable to the Euro Protected Shares
"Euro Unit"	a Unit comprising 1 Euro Protected Share and 1 Euro Property Share
"Initial Property Options"	the options over land in or near Obzor, Kavarna and Shabla summarised in paragraph 6 of Part VIII
"Law"	the Companies (Jersey) Law 1991 and subordinate legislation made thereunder and every modification or re-enactment thereof for the time being in force
"Management Agreement"	the management agreement between the Fund and the Manager, a summary of which is set out in paragraph 6, Part VIII
"Manager"	Development Capital Management (Jersey) Limited
"Maturity Date"	the Dollar Maturity Date, the Sterling Maturity Date and/or the Euro Maturity Date
"Minimum Holding"	the Minimum Holding in relation to the Property Shares, being (i) in relation to the Sterling Property Shares, fifteen thousand sterling (£15,000), except where Sterling Property Shares were issued to a Director of the Fund on his/her behalf and not in a nominee capacity, in which case the Minimum Holding shall be ten thousand sterling (£10,000) or where Sterling Property Shares were issued in conjunction with Sterling Protected Shares in which case the Minimum Holding shall be five thousand sterling (£5,000) less the value at the relevant proportion of the initial Offer Price of the relevant Sterling Protected Shares; (ii) in relation to the Dollar Property Shares, the dollar equivalent of fifteen thousand sterling (£15,000), except where Dollar Property Shares were issued in conjunction with Dollar Protected Shares, in which case the Minimum Holding of Dollar Property Shares shall be the dollar equivalent of ten thousand sterling (£10,000) less the value at the relevant proportion of the Offer Price of the Dollar Protected Shares; and (iii) in relation to the Euro Property Shares, the euro equivalent of fifteen thousand sterling (£15,000), except where Euro Property Shares were issued in conjunction with Euro Protected Shares, in which case the Minimum Holding of Euro Property Shares shall be the euro equivalent of five thousand sterling (£5,000) less the value at the relevant proportion of the Offer Price of the Euro Protected Shares
"Offer"	the offer via authorised intermediaries as described in this document

"Offer Price"	£1.00 per Sterling Unit, US$1.00 per Dollar Unit, €1.00 per Euro Unit and the Applicable Price per Property Share
"Open Market Value"	the estimated, "as-if-built", open market value of a property
"off-plan"	the term used to describe the purchase of a property still in the process of construction or conversion
"Property Investment Adviser"	Development Capital Management (Bulgaria) plc
"Property Portfolio"	the rights in respect of property held directly or indirectly by the Property Subsidiary
"Property Shares"	Sterling Property Shares, Dollar Property Shares and Euro Property Shares or any of them as the case may be
"Property Subsidiary"	BSPF (Property) Limited, the wholly owned subsidiary of the Fund which will directly or indirectly hold the Property Portfolio
"Property Valuation Date"	the close of business on 30 June and 31 December in each year (commencing 30 June 2005) or such other or additional date or dates as the Manager may from time to time determine, provided that following the first Property Valuation Date there shall be at least one Property Valuation Date every six months
"Shares"	the Sterling Protected Shares, the Dollar Protected Shares, the Euro Protected Shares, the Sterling Property Shares, the Dollar Property Shares and the Euro Property Shares or any of them as the case may be
"Shareholders"	the holders of the Shares
"Sterling Maturity Date"	1 May 2012
"Sterling Property Shares"	the sterling property shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Property Subsidiary
"Sterling Protected Amount"	the amount which each Sterling Protected Share will be redeemed at on the Sterling Maturity Date being equal to £1.00 per share (subject to the risks referred to in Part IV)
"Sterling Protected Shares"	the sterling protected shares in the share capital of the Fund, the net subscription proceeds of which will be invested in the Sterling Protected Subsidiary
"Sterling Protected Subsidiary"	BSPF (Sterling) Limited, the wholly owned subsidiary of the Fund attributable to the Sterling Protected Shares
"Sterling Unit"	a Unit comprising 1 Sterling Protected Share and 1 Sterling Property Share
"Strategic Adviser"	Colliers International (Bulgaria) Limited or such other property adviser and valuer as the Manager may from time to time appoint
"Unitholder"	a holder of Units
"Units"	Sterling Units, Dollar Units and Euro Units or any of them as the case may require
"US Person"	has the meaning given in Regulation S under the United States Securities Act of 1933, as amended
"£" or "sterling" or "pence"	the lawful currency of the UK
"US$" or "dollar" or "cent"	the lawful currency of the United States of America
"€" or "euro" or "cent (Euro)"	the lawful single currency of the European Union

PART I

THE FUND

INTRODUCTION

The Black Sea Property Fund Limited is a new closed-ended, Jersey registered, investment company which has been formed to invest in the Bulgarian property market and more particularly properties, predominantly holiday apartments and villas, to be built along Bulgaria's Black Sea coastline. Its objective is to provide Shareholders with a high level of long-term capital appreciation with the option of capital protection.

The Fund's focus will be on opportunities along the Bulgarian Black Sea coastline. The Fund will, however, have the flexibility to invest in residential property elsewhere in Bulgaria if suitable opportunities arise. The Fund will also have the ability to invest up to 20% of its assets (at the time of investment) in land, and in property-backed and joint venture projects (which could include ski resort and golf course projects) with local and other partners (including banks).

The Fund's share capital comprises 3 classes of Property Shares (Sterling Property Shares, Dollar Property Shares and Euro Property Shares) and 3 classes of Protected Shares (Sterling Protected Shares, Dollar Protected Shares and Euro Protected Shares).

A Sterling Unit comprises 1 Sterling Protected Share and 1 Sterling Property Share and offers 100% capital protection. A Dollar Unit comprises 1 Dollar Protected Share and 1 Dollar Property Share and offers 85% capital protection. A Euro Unit comprises 1 Euro Protected Share and 1 Euro Property Share and offers 100% capital protection. An investor who wishes to have greater exposure to the Property Portfolio and less capital protection, may choose to purchase additional Property Shares. An investor wishing to have no capital protection should purchase only Property Shares.

The Sterling Protected Shares and Euro Protected Shares have a 7 year life expiring on 1 May 2012 when they will be redeemed. The Dollar Protected Shares have a 5 year life expiring on 1 March 2010 when they will be redeemed. The Property Shares will have a life of 5 years plus up to 2 further years for the planned realisation of the Property Portfolio.

The Property Shares and Units will be separately traded on AIM. The Capital Protected Shares will only be tradeable as part of a Unit.

THE PROPERTY PORTFOLIO

Black Sea development property

The Property Investment Adviser believes that the existing climate is favourable for investment in the Bulgarian residential property market and more particularly in properties, predominantly holiday apartments and villas, to be built along the Black Sea coastline designed primarily for the overseas market. The Fund will invest "off-plan" i.e. it will contract to acquire residential properties that are not yet built, by committing to pay a discounted purchase price, on a future date, once the properties have been completed. Early stage, wholesale, off-plan investment offers the potential for significant returns in a variety of market scenarios. It also affords a degree of protection against any future downturn in capital values.

To purchase "off-plan" is to purchase property which is in the process of development i.e. at any stage following the creation of architectural drawings in respect of and prior to the completion of the property in question. Off-plan sales typically enable developers to partly cover construction costs and secure more advantageous financing terms from lenders or equity providers and therefore tend to enable investors to acquire property investments at a discount to Open Market Value.

By committing capital to the purchase of investment properties before completion, the Fund will effectively provide a form of early stage finance for developers who are able to borrow against deposits, thereby gearing their businesses and covering part of the costs associated with a development. The Fund intends to generate significant capital gains by investing at substantial discounts to current market value and selling-on exchanged contracts prior to completion.

As the Fund will pay deposits of, in most cases, between 15% and 25% of the agreed completion price, the Property Portfolio will have a highly geared exposure to the performance of its investment properties.

Investment policy

The Fund's policy in relation to the Property Portfolio will be to purchase properties from developers at an early stage of their construction, in bulk, in order to achieve substantial discounts to Open Market Values. The Fund will maximise the discount to the "as-if-built" Open Market Value agreed on exchange of contracts. The level of discount available will depend on a number of factors, including:

- the number of properties purchased as a percentage of the entire development;
- the time to run between exchange of contracts and completion;
- any overage arrangement agreed with the developer, under which it may share in profits above agreed thresholds;
- the size of the deposit paid;
- the individual circumstances and financing requirements of the developer concerned; and
- market sentiment and macro economic prospects.

The Fund will seek to acquire marketable investment properties offering the prospect of sustainable capital growth. Investments in property will be made by reference to specific criteria, which include the following:

- **Location**—the Manager will seek to acquire beachfront properties within 1 hour's transfer from either Varna or Bourgas airports on the Black Sea coast, which, once completed, would be suitable for letting (typically holiday apartments and villas).
- **Type of property**—the Manager will seek to acquire predominantly beachfront properties with good amenities (pool, tennis court, restaurant), which cater for families and are close to transport links and leisure facilities. The Fund may, if appropriate, acquire all properties of a particular type (for example, all 2 bedroom apartments) within a development, thereby avoiding competition with the developer concerned when selling-on.
- **Development standards**—the Property Investment Adviser will utilise its developer and agency contacts to identify suitable investment properties offering satisfactory and consistent construction standards and specifications. This, in turn, will enable the Manager and its advisers to estimate the future value of properties on a "when built" basis, using examples of finish and specification from existing properties.
- **Timing**—the Fund intends to co-operate with developers at the earliest possible stage in the development process (in some cases before land is acquired or planning permission obtained), thereby capturing the potential increases in capital value, available even in a static market, as the development progresses. It is anticipated that the Fund's investment properties will typically have a development period of 18 months to 3 years. The Manager will, however, have discretion to acquire investment properties at any stage in their development, where in the Manager's opinion the discount to Open Market Value is attractive.

If the Fund chooses and is able to sell-on an investment property at a profit, it will receive that profit once the development is completed, though it may, if agreed, use the deposit received from its purchaser to fund other investments.

The Fund will have the flexibility to acquire different numbers of properties within developments, from single properties to entire developments or phases of developments. The Property Investment Adviser will seek to identify opportunities where the purchasing power of the Fund can be brought to bear so as to secure more attractive discounts from developers. The Manager will also seek to spread investment risk by investing in a variety of different types of properties by a variety of developers.

While the Fund intends to sell on investment properties prior to their completion, in order to capture capital gains derived from the discount to current market value at which they were acquired, the Manager may, if capital values fall to such an extent that no profit can be made from selling on prior to completion, choose to complete on exchanged contracts and thereafter to let the investment properties to generate rental yields.

Where the Fund completes the acquisition of an investment property, the Fund would intend to hold the property until capital value recovers sufficiently to generate a capital profit on realisation, although the Manager retains the discretion to sell any such investment properties at a loss if it believes it to be in the interests of Shareholders.

It is anticipated that it will take between 12 and 18 months to invest the proceeds of the Offer in the Property Portfolio (assuming full subscription).

The Fund's investment policy does not prohibit it from taking management control of any underlying investments held by the Fund.

The investment policy of the Fund as stated in this document may only be varied in whole or in part by way of ordinary resolution of the holders of Shares but such sanction shall not be required if such variation is to correct a manifest error or is necessary to comply with fiscal or other statutory or official requirements, actual or proposed, or if the Manager shall certify that such variation does not materially prejudice the interests of the holders of Shares of the relevant class and does not operate to a material extent to release the Manager from any responsibility to any such holders.

Investment strategy

In a stable property market, the achievable market value of a property tends to rise according to the stage of its development. This value is lowest during the design phase several years prior to completion. Post design, once construction is underway, the price tends to rise through the various development stages, as the major structural work is completed; upon breaking of ground; shell completion; waterproofing; completion of a show home; as phased completion begins; and once the development is completed and fully occupied. The level of discount offered by developers generally reduces as the development progresses through these stages. Accordingly, the Property Investment Adviser will generally seek to identify early stage investment opportunities where the discount can be maximised.

It is the Fund's intention to co-operate with developers as early as possible in the development process, from the time when land is acquired and planning permission is sought. Involvement at this stage will enable the Manager to ensure that the design and specification of the investment properties which it intends to acquire are suitable for its intended on-sale or rental market.

When negotiating with developers, in order to maximise potential returns and minimise risk, the Manager will seek to include the following terms in exchange contracts:

- Deposit terms requiring the developer to place the Fund's deposit in escrow, held on trust by the relevant lending bank to the joint order of the Fund and the developer concerned, on terms which require its release back to the Fund in the event of default by the developer and drawn down by the developer only upon staged completion to a tightly specified standard.
- A suitable period of notice before completion to allow the Manager sufficient time to arrange financing, if required.
- Details of the exact specification of the properties concerned, including floor plans, square footage and the nature of the fixtures and fittings.
- A right for the Fund to novate or assign the contracts or to nominate the lessee prior to completion. Only if the contract is novated can the Fund avoid liability to the developer for a subsequent purchaser's default.
- No completion until an architect's certificate and applicable statutory permits for use have been received from the developer certifying that the works have been carried out according to specification.
- A right for the Fund to elect for the properties to be the final properties to complete in the development and for their completion to be staggered.

Designed to capitalise on an underdeveloped and rising market

The Bulgarian Black Sea property market is evolving and forecast to experience continued capital growth over the planned life of the Fund (source: Colliers International), reflecting Bulgaria's improving economic position and demand from overseas buyers. Despite recent increases, prices remain considerably lower than in other parts of Europe, owing principally to the following factors:

- Prices have historically reflected the purchasing power of Bulgarian nationals—GDP per capita is considerably below that of other European nations.
- Mortgages were not widely available in Bulgaria before 1997 and the fledgling market still only offers a limited range of products at a relatively high cost of borrowing—and only to Bulgarian nationals.
- Restrictions on the foreign ownership of property have deterred overseas purchasers.

Not only is the Black Sea property market forecast to grow from a relatively low base, it is also expected to experience increasing demand, as a result of the following factors:

- Tourism has grown strongly in Bulgaria, particularly along the Black Sea coast, and is forecast to increase from c3 million in 2002 to c11 million by 2020 (source: World Tourism Organisation).
- Bulgaria's political and economic transformation of the last decade has been dramatic and is expected to result in Bulgaria joining the EU in 2007—attracting increasing foreign direct investment and leading to an improvement in Bulgaria's infrastructure and appeal.
- Prior to or upon its accession to the EU, Bulgaria is expected to remove its existing restrictions upon the foreign ownership of property, harmonising its laws with the rest of the Union. Foreign purchasers have already caused prices to rise and are likely to have a greater impact once the restrictions are lifted.

The ability and willingness of Bulgarian banks to finance residential development has increased significantly over the last 3 years. Consequently, there are a greater number of developers seeking to build a greater number of properties than at any time in the past. Owing to the relatively underdeveloped state of the Bulgarian financial markets, however, many developers are restrained by their limited access to debt and/or equity finance to fund new schemes.

As a result of its consultation with both lending banks and developers operating in Bulgaria, the Property Investment Adviser believes that developers will be able to obtain more advantageous financing terms should they sell part of a scheme to the Fund concurrent with arranging funding—thus enabling the Fund to negotiate considerable discounts to Open Market Value and enabling developers to acquire and build-out pipelines more cost effectively.

The Bulgarian off-plan market, like the Bulgarian residential market, is relatively underdeveloped compared, for example, to that in the UK. Similar principles apply but there are a number of key differences, which the Fund will seek to benefit from.

- The deposit required upon exchange of contracts is higher in Bulgaria (10%–30%), compared to the UK (5%–10%), limiting the ability of small-scale, amateur purchasers to invest.
- There are very few Bulgarian off-plan investors (the concept of buy-to-let does not exist) and far fewer international investors with sufficient expertise to source investments in Bulgaria than in the UK.
- UK developers seek to generate an average profit margin of between 20% and 30% (subject to the relevant land acquisition price). In Bulgaria, owing to the relatively low cost of land, materials and labour, development profit margins might range between 100% and 300%—thereby enabling developers to grant larger discounts.
- It is more difficult to gain access to the lending banks and developers, and therefore source investment opportunities, in Bulgaria than in the UK. The Fund will source deals via its Property Investment Adviser and its contacts in the region.
- Without strong forward sales, banks will typically only lend between 60% and 80% of building costs, which should increase the willingness of developers to sell to bulk institutional purchasers such as the Fund.

The Bulgarian Black Sea coast

The Bulgarian Black Sea coast is enjoying a boom in tourist demand. It enjoys a mild and pleasant climate. The average summer air and sea temperatures are 22°C and 25°C respectively. There are more than 240 hours of sunshine in May and September and more than 300 hours in July and August. Rainfall is low and the beaches are clean (8 EU Blue Flags).

Low cost flights are becoming available to tourists visiting Bulgaria. British Airways and Bulgaria Air currently fly direct to Sofia. In addition, there are a number of carriers including Malev (the Hungarian carrier) and Czech Airways which operate indirect flights to Sofia. There are also direct charter flights to Varna, the country's third largest city and major Black Sea port.

The World Tourism Organisation in its study "2020 Vision Europe" highlighted the large rise in expected demand for vacations in Central and Eastern Europe stating that "by the year 2020 nearly one in every three visitors to Europe will choose a Central or Eastern European destination". It sited the main reason for this as the region's "perfect geographic location between two major source markets—Western Europe on one side and the Russian Federation on the other". WTO Secretary General, Francesco Frangialli, supported this, commenting that "the favourable pricing of tourism products in that region will continue to be a major factor contributing to growth". The report highlighted Bulgaria as having one of the highest expected growth rates. Speaking on Bulgarian tourism, the Deputy Economy Minister, Dimitar Hadjinikolov, noted that c3 million tourists visited the country in 2001 and that the figure was expected to rise to c11 million by 2020. For the first seven months of 2004 the Ministry of the Economy reported a 20% increase in tourists to Bulgaria. In that period the largest increases were Greece up 130,000 (51%) and the UK up 89,000 (67%).

Bulgaria's political and economic transformation

Bulgaria's recent political and economic transformation has been dramatic. Only 6 years ago, following the fall of Communism in 1989, the country was still struggling to come to terms with its new free-market economy. The transition to a democracy had been difficult, hampered by political instability, corruption, a banking collapse and hyperinflation. Since 1997, however, with both international support from bodies such as the EU, IMF and World Bank and disciplined government, Bulgaria has emerged as a viable, new investment market.

Though the political landscape is still evolving, all political parties are united by a common commitment to EU accession in January 2007. This common goal has effectively determined the political and economic agenda for the next 3 years and means that, with the attention of the international community focused upon it, Bulgaria's progress is unlikely, in the Manager's view, to be de-railed. With substantial funding available, a balanced budget, a privatisation programme promoting increased foreign direct investment and a strengthening economy, Bulgaria offers attractive investment opportunities and the prospect of strong investment returns over the next 5 to 7 years. See Part II—Market Background.

Initial investments and current trading

The Manager has secured call-options in respect of c1,300(1) properties to be built within 3 separate beachfront schemes in or near the Black Sea towns of Obzor, Shabla and Kavarna. The aggregate deposit payable on exercise of these options would be a minimum of €9.3 million**,** representing c12% of the gross assets to be raised on issue of the Property Shares (assuming full subscription).

The developers of the schemes are the Bulgarian Property Investment Trust plc and the Black Sea Investment Trust plc, two Bulgarian-incorporated development companies. Under the terms agreed with the developers, the Fund will retain the first 20% of any profit generated above the Fund's purchase price and 30% of any profit generated thereafter, with the balance to be paid to the developers.

The call option in respect of the Obzor development will entitle the Fund to acquire 20% of the units built. The Fund will pay €480 per square metre, representing a premium to build costs of c20% and an approximate discount to Open Market Value of 50%. Based on the Fund's aggregate deposit of €2,204,160 (20% of purchase price) to be paid upon exchange, were the Fund to sell the properties prior to completion for €1,000 per square metre, it would generate a gross profit retained by the Fund (before tax and costs) of €5,270,848.

The call option in respect of the Shabla development will entitle the Fund to acquire 20% of the units built. The Fund will pay €480 per square metre, representing a premium to build costs of c20% and an approximate discount to Open Market Value of 50%. The purchase price under the call option in respect of the development is to increase up to exchange of contracts in line with the increase in such index selected by Ernst & Young Bulgaria EOOD as most closely represents inflationary measures for the Black Sea construction sector. This reflects the longer term nature of the Shabla development. Based on the Fund's aggregate deposit of €5,270,400 (20% of purchase price) to be paid upon exchange, were the Fund to sell the properties prior to completion for €1,000 per square metre, it would generate a gross profit retained by the Fund (before tax and costs) of €12,561,120.

The call option in respect of the Kavarna development, will entitle the Fund to acquire 20% of the units built. The Fund will pay €480 per square metre, representing a premium to build costs of c20% and an approximate discount to Open Market Value of 50%. The purchase price under the call option in respect of the Kavarna development is to increase up to exchange of contracts in line with the increase in such index selected by Ernst & Young Bulgaria EOOD as most closely represents inflationary measures for the

(1) Based on an average unit size of 75 square metres and assumed build densities. Actual unit sizes and build densities may vary and accordingly the number of units may vary.

Black Sea construction sector. This reflects the longer term nature of the development. Based on the Fund's aggregate deposit of €1,824,000 (20% of purchase price) to be paid upon exchange, were the Fund to sell the properties prior to completion for €1,000 per square metre, it would generate a gross profit retained by the Fund (before tax and costs) of €4,347,200.

The options described above will be transferred to the Fund immediately following launch in return for the Manager receiving Property Shares. At the minimum size of the Fund (€10 million on Admission), these Property Shares will be equal in number to 2% of the Property Shares of each class issued under the Offer and a further 3% of such Shares on securing the required construction consents for the Shabla and Kavarna developments. If the Fund is larger than the minimum, the percentage of Property Shares received will be reduced in proportion. These Property Shares will not be disposed of by the Manager for period of at least 3 years from Admission.

Construction consents are being obtained in respect of the three sites. Receipt of a Construction Permit is the final stage in the Bulgarian construction consent process under Bulgarian law. Before the Construction Permit is issued, certain other statutory regulated procedures are prescribed, depending on the details of the construction itself and the legal status of the land where the construction is to be carried out. The prerequisites to the issue of a Construction Permit are as follows:

- change of land status from agricultural land into land with industrial designation;
- environmental impact assessment ("EIA") of the construction;
- Zoning Plan amendment;
- Design Visa;
- Construction Designs approval;
- EIA regarding construction designs;
- Construction Permit.

The construction consent process for the three sites referred to above initially requires conversion from agricultural status land. The site at Obzor has been converted from agricultural land. Approvals have been applied for in respect of the Shabla and Kavarna sites. For further details, see the paragraph headed "Construction process" in Part II.

The Property Investment Adviser has had discussions with developers of two other Black Sea coast developments where the developers would, in principle, be willing to enter into similar arrangements with the Fund.

The statements made above regarding sales prices of properties should not be taken as an indication that the properties will be sold at the stated price or at all. The stated discounts are based on the Strategic Adviser's assessment of residential property values as at January 2005 (see Part III). Those valuations may not be achievable on sale.

Letting

While the principal aim of the Fund is to generate capital gains through the on-sale of exchanged contracts before completion, the Manager will have discretion to complete on an investment property and thereafter to let it to generate rental yield.

Certain properties are particularly appropriate for the holiday letting market. These are typically beachfront apartments with good amenities (e.g. pool and restaurants), which cater for families and are close to transport links, beauty spots and leisure facilities. If properties of this type are purchased at an appropriate discount, relatively high rental yields might be achievable. It may be possible for such properties to be pre-let to tour operators for a 3 or even 5 year period of guaranteed rent. New-build developments are favoured for holiday lets due to their low running costs and design and there is currently a shortage of such properties. Agreement can be reached for a bulk corporate let before the properties are completed.

If investment properties are let, they will be placed under the management of Colliers International or another appropriate local letting agent appointed by the Manager.

Gearing

Shareholders' exposure to the Property Portfolio's performance will be highly geared through the effect of deferred purchase commitments in respect of investment properties on which only deposits have been paid, and may also be geared by mortgage borrowings to the extent that loans are drawn down to enable the Fund to complete purchases.

Gearing on deposit

The Manager will limit the value of a property bought on deposit with the aim of ensuring that the Fund has sufficient capital to enable it to complete on all investment properties (taking into account expected borrowing terms if the Fund were to complete).

The amount of capital required to allow the Fund to complete on its investment property will vary depending on any gains retained by the Fund, the movement in capital values between exchange of contracts and completion, the level of discount to current market value at which the Fund exchanges contracts and the percentage of value which a lender is willing to lend at completion. If the Manager decides to complete on an investment property, the capital value of which has increased between exchange of contracts and completion, the Manager will seek to have the relevant investment property revalued in order to withdraw some or all of the Fund's deposit and to borrow the entire completion amount required. If capital values fall below the agreed completion price, on completion the Fund will be required to finance the difference between the agreed completion price and the percentage level at which a lender is prepared to lend.

The Manager will monitor the Fund's ongoing contingent liabilities relative to the capital available to meet additional deposits, make new investments in property and meet financing and other costs. It will take into account available borrowing terms and make prudent assumptions as to the amount by which the capital value of each investment property might reasonably be expected to fall between exchange of contracts and completion.

Mortgage borrowings

The Directors, on the advice of the Manager and Property Investment Adviser, will decide on the terms of any bank borrowings incurred in order to complete the purchase of any investment properties. Mortgage borrowings will be limited to no more than 100% of the Fund's net asset value (at the time of borrowing).

Use of derivatives

The Fund will not use derivatives or employ similar financial techniques.

Investment process

Sourcing investments

The Property Investment Adviser will be responsible for sourcing investment properties at appropriate discounts and from suitable developers. It is expected that the Property Investment Adviser will identify investment opportunities from banks, developers and agents and other contacts in the region.

Analysis and recommendation

Once the Property Investment Adviser has sourced a property which it considers meets the investment criteria of the Fund, it will submit a written recommendation to the Manager including a memorandum setting out the proposed terms of exchange negotiated with the developer.

Valuation and acquisition

Upon receiving such recommendation, the Manager will determine whether the proposed investment complies with the Fund's investment remit. If the proposed investment is deemed suitable, the Manager will instruct the Strategic Adviser to assess it and provide a valuation. Both the Property Investment Adviser's recommendation and the Strategic Adviser's valuation will report on the level of discount and consider the risk profile of the development concerned, having regard to the developer, location, nature of the scheme and prospects of the market on both a macro and micro level and the letting prospects of the Property

If the purchase is approved by the Manager, it will instruct local. The lawyers instructed by the Manager will receive a fee per conveyancing transaction, payable by the Fund at market rates.

On-sale

Sales of investment properties owned by the Fund will be conducted, where possible, through local agents in the UK, the Republic of Ireland, Italy, The Netherlands, Sweden, Denmark, Germany and the Baltic states including Russia. If several properties are purchased in a development, the Property Investment Adviser, in conjunction with the Strategic Adviser, will advise the Manager on the need for a phased sale of the properties.

In a stable market, the value of properties purchased at a discount will increase as a development nears completion. Accordingly, the Manager may elect to stagger the release of properties in a specific development so as to ensure that supply does not exceed demand and that capital gains are maximised on properties released just prior to completion.

Those investment properties sold by the Fund at an early stage following exchange of contracts are likely to be purchased by investors also looking primarily for capital growth (including overseas investors and other funds) and will achieve a lower percentage uplift in capital value for the Fund. As the development approaches completion the properties are likely to be sold to the owner-occupiers market, thereby potentially affording the Fund greater profits.

Letting

As the investment properties held within the Fund's portfolio near completion, the Property Investment Adviser will advise the Manager on whether to sell-on the investment properties or hold them through to completion and subsequently let and/or dispose of them. The Property Investment Adviser will advise the Manager as to the market conditions and the prospects for a timely sale following completion.

The outlook for the Black Sea property market will have a bearing on whether investment properties are let. If the future prospects are poor at the time of completion, it may be advisable to sell the investment property at a small profit or even a loss to reduce exposure and to provide capital to invest at a low point in the cycle. Alternatively, the Manager may elect to let the investment properties covering interest payments from rental yields, and then look to sell when the market has recovered. If the capital values of the investment properties have risen to such a level that the Fund may complete on the investment property on 100% borrowing yet the market is slow, it may be advisable to let the investment property, free the capital to reinvest and sell the investment properties once demand has improved.

CURRENCY ISSUES AND CASH INVESTMENT

The Directors anticipate that the Fund's property investments will predominantly be made in euros and that the return on the Property Portfolio (sales proceeds and any rental income) will also be in euros. Accordingly, the Fund will convert the sterling and US dollar proceeds of the issue of Property Shares into euros shortly following the close of the Offer.

Any dividends or other distributions made to holders of Sterling Property Shares will be converted into and paid in sterling at prevailing exchange rates (net of costs). Any dividends or other distributions made to holders of Dollar Property Shares will be converted into and paid in US dollars at prevailing exchange rates (net of costs). Any dividends or other distributions made to holders of Euro Property Shares will be converted into euros (as necessary) and paid in euros at prevailing exchange rates (net of costs).

The base currency of the Property Shares for accounting purposes will be in euros, but the accounts and reports delivered to Shareholders will also be stated in the currency of the relevant Property Shares held (sterling, US dollar or euros), converted at the exchange rates prevailing at the end of the relevant period. The Sterling Protected Shares will be accounted for in sterling, the Dollar Protected Shares in US dollars and the Euro Protected Shares in euros.

The Fund will not hedge the exchange rate risk on the Property Portfolio between euros and sterling or US dollars.

Any cash held by the Fund may be held on deposit or invested in money-market funds or other near-cash investments. Cash management will be undertaken by F&C Asset Management.

STRUCTURE OF THE FUND

The Fund will be established as an umbrella investment company, with sub-funds attributable to each of the six share classes.

The net proceeds of the issue of the Sterling Property Shares, the Dollar Property Shares and the Euro Property Shares will be invested in the Property Subsidiary, a Jersey incorporated subsidiary of the Fund through which the Property Portfolio will be held (directly or via intermediate holding companies).

The net proceeds of the issue of the Sterling Protected Shares, the Dollar Protected Shares and the Euro Protected Shares will be invested in the Sterling Protected Subsidiary, the Dollar Protected Subsidiary and the Euro Protected Subsidiary (respectively), each Jersey incorporated wholly owned subsidiaries of the Fund, by way of loan and/or share capital.

CAPITAL PROTECTION

The Capital Protection Manager

F&C Asset Management is a leading autonomous European financial services business listed on the London Stock Exchange.

F&C Asset Management was formed following the merger of F&C Management Limited and ISIS Asset Management plc on 11 October 2004. As at 30 September 2004, the merged entities had over £118 billion of assets under management, making F&C Asset Management (on a pro forma basis) the fourth largest fund manager in the UK and a top ten manager of European pension funds.

F&C Asset Management is headquartered in London and has additional investment offices in Amsterdam, Lisbon, Edinburgh, Dorking and Dublin, and marketing and client service offices in Frankfurt, Paris and Boston. F&C Asset Management is dedicated to international investment and has evolved into one of the largest active asset management companies in Europe.

Capital protection arrangements

If an investor acquires Units, a proportion of the Offer Price will be used to acquire Capital Protected Shares. The proportion used will be determined by the Capital Protection Manager as being sufficient (after costs) to return the Sterling Protected Amount, the Dollar Protected Amount and the Euro Protected Amount (as relevant) on the relevant Maturity Date. This will depend on economic factors (including interest rates) prevailing at the time.

If the Closing Date had been 12 January 2005, 80.5 pence of the sterling Offer Price, 88.5 cents (Euro) of the euro Offer Price and 78 cents of the US dollar Offer Price would have been used to subscribe for Capital Protected Shares. The balance of the Offer Price will be used to subscribe for Property Shares issued as part of a Unit.

The proceeds of the issue of the Capital Protected Shares will be used to fund each of the three Capital Protected Subsidiaries of the Fund by way of loan and/or share subscription. These proceeds will be managed by F&C Asset Management. The proceeds will be invested in UK, European Union or US government securities, or in medium term notes issued by one or more banks having a Standard and Poors credit rating (on purchase of the relevant securities) of no less than AA–. The government securities and/or medium term notes acquired will be designed to yield at maturity a gross amount equivalent to the Capital Protected Amount payable on the Maturity Date of the relevant Capital Protected Shares.

The proceeds of the repayment of the government securities or medium term notes held by the Capital Protected Subsidiaries will be returned to the Fund and used to redeem the Sterling Protected Shares, Dollar Protected Shares and Euro Protected Shares on the relevant Maturity Date. Any returns in excess of the Capital Protected Amounts of the Capital Protected Shares will be retained for the benefit of holders of the Property Shares.

Payment of the capital protected amounts is subject to counterparty risk on the investments held by the Capital Protected Subsidiaries and the other risks referred to in Part IV. Although the Directors have been advised that the Fund, the Sterling Protected Subsidiary, the Dollar Protected Subsidiary or the Euro Protected Subsidiary will not (under current tax law and practice) pay tax on amounts received by the Capital Protected Subsidiaries, if any tax was levied or withheld, this would reduce the returns to holders of Protected Shares.

BOARD

The Directors of the Fund, all of whom are non-executive, will be responsible for supervising the Manager and for the overall investment activities of the Fund. The Directors are:

Melville Trimble (aged 51) (Chairman, UK resident). Mr Trimble initially qualified as a chartered accountant before moving into investment banking, with a specialisation in the investment funds sector. He worked in corporate finance and broking at Cazenove & Co. in the City, developing its investment trust business working with boards of trusts, investment managers and institutional shareholders. Mr Trimble left Cazenove & Co. to lead the investment trust corporate team at Merrill Lynch International. Subsequently, Mr Trimble has worked as finance director at Herald Investment Management Ltd in London. Mr Trimble is also a non-executive director of INVESCO Income Growth Trust plc.

Evgeni Chachev (aged 60) (Bulgarian resident). Mr Chachev was educated at the National Economic University and the National University for Architecture and Construction Planning and Development in Bulgaria before working as an engineer on Bulgarian state construction projects in Cuba. Between 1990 and 1995, Mr Chachev was chairman of a consulting consortium and subsequently acted as chairman of the managing boards of the Capital Municipality Bank and of HVB Biochim Bank. Between 1997 and 2001, Mr Chachev served in the Bulgarian Government, latterly as Minister for Regional Development and Construction. He is currently a Member of the 39th Bulgarian Assembly, a Member of the Parliamentary Transport and Telecommunications Committee and Deputy Chairman of the Black Sea Economic Co-operation Parliamentary Assembly.

Roger King (aged 51) (Jersey resident). Mr King is a Chartered Accountant, having initially trained at Coopers & Lybrand in Jersey and London. He was a partner with Jackson Fox Chartered Accountants, Jersey between 1982 and 2000 and a director of AIB Worthytrust Limited (formerly Worthy Trust Company Limited) from 1982 to 2001 and of Equitilink International Management Limited from 1985 to 1998, in Jersey. He is a consultant to AIB Worthytrust and to HLB Jackson Fox, Chartered Accountants and a director or trustee of various corporate and private client entities.

Roger Maddock (aged 54) (Jersey resident). Mr Maddock has worked in the Finance Industry in Jersey since 1981 specialising in fund administration. He was the Managing Director of Equitilink International Management Limited, the manager of The First Australia Group of Funds and a director of various of the underlying funds of that group between 1984 and 1998. He is currently a non-executive director of AIB Banks (CI) Limited. He also holds a number of other directorships of fund management and investment companies.

The Hon. James Ogilvy (aged 70) (UK resident). Mr Ogilvy had a 44 year career in the City of London. Between 1959 and 1986 he was a partner in Rowe & Pitman. He was Vice-chairman of Mercury Asset Management between 1986 and 1988 and for 10 years subsequently he was Chief Executive Officer of Foreign & Colonial Management Limited. From 1998 to 1999 he was Chairman of F&C Management and he is currently a director of a number of investment funds, including The Off-plan Fund Limited.

The Property Subsidiaries and the Capital Protected Subsidiaries each have the same board of directors as the Fund.

THE OFFER

Up to €75 million is being raised by the Fund for investment in the Property Portfolio.

Up to 256 million Sterling Units, 256 million Sterling Property Shares, 427 million Dollar Units, 427 million Dollar Property Shares, 621 million Euro Units and 621 million Euro Property Shares are being offered via authorised intermediaries under the Offer.

The Fund will pay commission to distributors of 5% of the Offer Price of each sterling and dollar denominated Share sold, and 3% of the Offer price of each euro denominated Share sold. Additional commission of up to 5% of the Offer Price may be charged to investors by distributors of euro denominated Shares.

The terms and conditions of application under the Offer in the UK of Sterling Property Shares and Sterling Units and an application form are set out at the end of this document. Application forms for Sterling Property Shares and Sterling Units, accompanied by a cheque or banker's draft made payable to "Development Capital Management (Jersey) Limited Client Settlement Account A/C The Black Sea Property Fund Limited" for the appropriate amount, must be received by or on behalf of the Fund by no later than 3 p.m. on 28 February 2005.

The minimum consideration which may be paid under the Offer by any person for Sterling Units or Sterling Property Shares is £30,000, for Dollar Units or Dollar Property Shares is US$100,000 and for Euro Units or Euro Property Shares is €40,000.

The Offer Price of each Sterling Unit is £1, of each Dollar Unit is US$1 and of each Euro Unit is €1. Because the final cost of the capital protection arrangements will not be determined by the Capital Protection Manager until after the Closing Date, the Offer Price of the Property Shares will not be determined until then. Applications for Property Shares (outside of Units) will therefore be made for an amount of money which will be applied in subscribing for such number of the relevant class of Property Shares as can be acquired at the Offer Price as finally determined. Any fractions of cash will be retained by the Fund for the benefit of the relevant class of Property Shares.

No public offering of the Shares or Units in any jurisdiction is being made. The Offer is not being underwritten.

The Fund may, at the Directors' discretion, arrange for further closings within 12 months of Admission under which further Shares may be issued at no less than the price that in the Directors' view reasonably corresponds to the net asset value per Share at the time of issue. The Fund may, at the Directors' discretion, and only in the period from Admission up to and including 30 June 2005 (being the first date it is anticipated that the net asset value per Share will be calculated), issue further Shares at the Offer Price. The same launch fees and commissions will apply to any Shares issued during this period.

General

Unless otherwise agreed by the Board, the Offer is conditional on a minimum of €10 million being raised on the issue of Property Shares and a minimum of €0.5 million (or the relevant currency equivalent) for each class of Share. As at the date of this document the Fund had received subscription commitments of £1 million in respect of Sterling Property Shares conditionally on the minimum being raised.

The Fund has applied for the Shares to be admitted to CREST with effect from the date of Admission. It is expected that Admission will become effective and dealings in the Shares will commence on or around 14 March 2005. Accordingly, the settlement of transactions in the Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so.

In general, the Shares that are held in uncertificated form under CREST will be subject to the rules, regulations and procedures governing CREST and its system in effect from time to time. Ownership of any Share held in uncertificated form under CREST may only be transferred in compliance with procedures of CREST in effect from time to time.

The acceptance and any scaling back of applications will be at the Directors' discretion.

LIFE OF THE FUND

The Sterling Protected Shares and Euro Protected Shares have a seven year life expiring on 1 May 2012 when they will be redeemed. The Dollar Protected Shares have a five year life expiring on 1 March 2010 when they will be redeemed.

The Property Shares will have a life of five years plus a realisation period of up to two further years for the planned realisation of the Property Portfolio. It would be the Manager's intention to position the Property Portfolio such that it is possible to achieve an orderly realisation by the end of this period. The life of the Property Shares may be extended by special resolution of the holders of the Property Shares (requiring a two-thirds majority of those voting).

The termination of the Fund may involve liability for taxation for some Shareholders.

DISTRIBUTIONS AND REPURCHASES OF SHARES

The proceeds realised from the Property Portfolio will be available for reinvestment into further investment property (net of any performance fee due). The Board will, however, consider the distribution of capital profits on the Property Shares after the first 3 years of the Fund's life and at any time if the Property Investment Adviser does not believe there to be further attractive investment opportunities.

Following the end of the fifth year of the Fund's life, the proceeds of sale of the Property Portfolio will be returned to Shareholders as determined by the Board.

If the Fund completes the purchase of investment properties and thereafter generates rental yield through letting, such rental income (net of expenses) may be distributed by way of an annual dividend (or more frequently at the Directors' discretion if the amount available is significant) on the Property Shares.

No dividends will be paid on the Capital Protected Shares.

If the Property Shares are trading at a discount to net asset value, the Fund may purchase Property Shares for cancellation. The purchase of Property Shares on this basis may address the imbalance between supply and demand indicated by the presence of a discount, and would be beneficial to the net asset value of the remaining Property Shares.

Distributions may be made by way of dividend or a redemption or repurchase of Property Shares, at the Directors' discretion. Distributions may give rise to a liability to tax on income or capital gains, depending on a Shareholder's individual tax position.

RISK FACTORS

Investors' attention is specifically drawn to the risk factors in Part IV of this document.

CONFLICTS OF INTEREST

The Manager and the Property Investment Adviser may provide investment management, advisory and other services to other clients (including investment companies) and, in providing such services, may use information obtained by them which is used in managing the Fund's investments. In the event of a conflict of interest arising, the Manager and the Property Investment Adviser will ensure that investment opportunities are fairly allocated to their respective clients. Furthermore, the activities of the Manager in its capacity as the Fund's investment manager are subject to the overall direction and review of the Directors. Any direct or indirect dealings between the Fund and the Manager, the Property Investment Adviser or their associates will be on arms' length terms only, approved by the Board.

The Manager acts as investment manager to Rainbow Investments (Jersey) Limited, the Jersey-incorporated holding company of Bulgarian Property Investment Trust plc ("BPIT") and Black Sea Investment Trust plc ("BSIT"), the Bulgarian-incorporated development companies which own the land over which the Initial Property Options have been granted, and receives fees in this capacity. BPIT and BSIT will also act as developers of the units which are the subject of the Initial Property Options. Mr Guilder, Mr Sabev and Mr Todorov are on the managing board of BPIT and BSIT and the board of the Property Investment Adviser. Mr Slavinski is on the supervisory boards of BPIT and BSIT and the board of the Property Investment Adviser. Mr Pridmore and Mr Mitchell are on the supervisory boards of BPIT and BSIT and the board of the Property Investment Adviser.

PART II
MARKET BACKGROUND

The Republic of Bulgaria

End 2003 figures:

GDP	cUS$20.01 billion
GDP per capita	cUS$2,600
Inflation rate	c2.3%
Labour force	c3.3 million
Unemployment rate	c14.5%
Population	c7.8 million
Government type	Parliamentary democracy
Coastline (Black Sea)	c350km
Average summer temperature	22.5°C
Currency (pegged to euro)	Lev (LV1.95583: €1)
Trans-national disputes	None

INTRODUCTION

The demise of Communism in 1989 sent the Eastern Bloc into political and economic turmoil. Bulgaria was no exception. From 1990 through to 1997 successive governments failed to come to grips with the economy, output plummeted, inflation rocketed to c1000% and unemployment surged.

In 1997 the right wing UDF government, with aid from the IMF, introduced a Currency Board arrangement, stabilised both the Lev and the economy, introduced a privatisation programme and applied for EU accession.

The economy is forecast to grow at c4.2% in 2004, with inflation at c4.9%. Unemployment is forecast to fall and wages to rise strongly. The budget is all but balanced, foreign reserves are increasing monthly and FDIs are sufficient to finance future expansion under the Currency Board arrangement. The problems of high wage, credit and money supply growth show no signs of causing overheating and are likely shortly to be addressed under IMF supervision.

Over the last 7 years, Bulgaria has become a viable investment area, with a sound economy, responsible government and considerable potential within the EU. Phase 1, the transition from a Communist centrally planned economy to a democratic free market economy is substantially complete and Phase 2, full integration within the EU and sustainable economic growth, is well underway.

The Eastern Bloc, having come to terms with the demise of Communism, has recognised the benefits of a free market economy in a low production-cost area and consequently, is benefiting from huge foreign investment flows as the international corporate sector uses cheap labour to its fullest potential.

GOVERNMENT

Recent changes

The fall of Communism in November 1989 and the move to democracy in Eastern Europe started a decade of political and economic uncertainty in Bulgaria as new political parties jostled for position and struggled to come to terms with a free market economy.

Since 1990, prices have been liberalised, a commercial code introduced, along with competition and foreign investment laws, and a foreign exchange regime established. A new constitution, which remains in force, was adopted in July 1991.

The situation worsened considerably in 1996, with a series of bank failures culminating in a further currency crisis and the serious depletion of foreign exchange reserves. International financial organisations withheld support, calling for a Currency Board to be established (a Currency Board pegs the currency allowing the printing of new money only to the extent that it is backed by foreign exchange reserves). Corruption was rife in political circles. The Lev depreciated six fold.

The caretaker government, formed in February 1997 under the UDF mayor of Sofia, Stefan Sofianski, stabilized the currency, brought down inflation, which had reached almost 1000%, began a drive against crime and corruption and signed an accord with the IMF.

Elections were held in May that year and the new leader of the UDF Ivan Kostov formed a government, which despite mid-term woes, poor results in the 1999 local elections and further corruption scandals, remained in power for a full 4 year term. During that period the government:

- introduced a Currency Board arrangement;
- stabilised the economy;
- signed a 3 year agreement with the IMF;
- began a significant privatisation programme;
- backed NATO in the 1999 Kosovan War;
- started EU accession talks in March 2000; and
- agreed EU membership to commence in 2007.

Security

Corruption remains an internal issue but is being addressed and must be resolved to the satisfaction of the EU Commission before Bulgaria's proposed accession in 2007.

In terms of external security, Bulgaria, which is surrounded by Romania to the north, Greece to the south and Macedonia, Turkey, Serbia and Montenegro to the east, has made considerable progress in recent years.

In 1997, a long standing dispute with Greece over use of the waters comprising the Mesta River was settled.

In March 2000 a disagreement over the location of a second bridge over the River Danube was brought to a close in Bulgaria's favour.

A difficult compromise in 1999 eased tensions with Macedonia in relation to a language dispute, resulting in a proliferation of trade and other agreements.

A free trade agreement was signed with Turkey in 1999.

Yugoslav (now Serbia and Montenegro) relations remain strained because of Kosovo, but stable because opposition to Slobodan Milosovic was personal and not directed against the Serbian people.

Bulgaria, as a member of the UN Security Council, spends c2.6% of GDP on defence and in March 2004 Bulgaria joined NATO, its application having been backed by the US following Bulgaria's decision to provide troops for the recent Iraqi conflict.

Overall, Bulgaria does not appear to be at risk from any outside power. The government enjoys full control of the police and armed forces, is strictly behind the US war on terror and has little internal unrest.

THE ECONOMY

Bulgaria's economy is growing at close to 5.0%, inflation was down to 2.3% last year, unemployment is falling and wages are rising strongly. The budget is all but balanced, foreign reserves and FDI are increasing monthly.

Although a further change in government is likely in 2005, all political parties have declared a commitment to obtaining EU membership, whilst the attentions of the IMF are likely to ensure that economic policy is not diverted from its responsible path. Under the Currency Board arrangement, the lev is tied to the euro, so that the Bulgarian National Bank (the central bank) has little discretion in setting monetary policy.

Inflation

For a country, which 7 years ago experienced hyperinflation the transition has been remarkable. The average annual rate of inflation in the period 1998 to 2002 was 8.8% and fell to 2.3% for 2003. The EIU expects annual average inflation to rise to 4.9% in 2004, before falling back to 4.4% in 2005, with little risk of a sustained increase.

Employment

Out of a population of c7.8 million, approximately 3.33 million represent the available labour force. Of these, as at January 2004, c537,000 were unemployed (c14.5%), 110,000 fewer than in January 2003 and the lowest figure since December 1998. Assuming the same rate of employment growth for the foreseeable future, nevertheless labour bottlenecks, if any, are unlikely to occur before 2006.

GDP

The economy remains extremely healthy, with sustainable low-inflationary growth continuing to be driven by increasing capital investment and consumer spending. Real GDP growth for 2003 was c4.5%, which the EIU expects to slow to c4% in 2004 and 2005.

Improvements in infrastructure, new roads, bridges, airport upgrades, should ensure that construction and investment will lead economic growth for the foreseeable future.

Interest rates

Under the Currency Board arrangement, rates are set according to Treasury Bill auction levels, these remained reasonably steady throughout 2003 at 2.6%. However, the basic rate has only a weak relationship with the interest rates charged on bank lending. The average rate on short-term lev credits is currently c9%.

Growth in the money supply overall is limited by the level of expansion of F/X reserves. This should provide a natural break on activity. The fact that the banks are in a position to lend at the current pace reflects a return to health of the banking sector whilst the slack in the economy has prevented an associated pick up in inflation.

FOREIGN INVESTMENT

Foreign direct investment

Bulgaria experienced record flows of FDI in 2003, c£1.34 billion up from US$876 million, and the Invest Bulgaria Agency estimates that FDI will exceed US$2 billion in 2004. Approximately US$565 million is expected from privatisations, cUS$415 million from expansion (companies increasing existing investments), and the balance is expected from new projects (overall investment is expected to reach the level of 7.5% of the real GDP). Two such projects involve prospective US investors and relate the technology sector and a third is Canadian, relating to the car industry.

Increased FDI is also likely to result from the fact that, as of September 2004, Bulgaria will be included in an index for international investments, the FDI Confidence Index. This index reflects the confidence of the international investors and determines each year the most attractive countries to invest in. The annual survey is based on primary data from the managers of the largest 1000 companies in the world. These companies represent 42 countries and 23 industrial sectors and have yearly sales of cUS$2,200 billion and assets of more than US$10,000 billion.

As a recent example of foreign investment, in June 2004 the Austrian company Viva Ventures, owned by the US investment fund Advent International, paid €280 million for 65% of BTC, the leading Bulgarian telecommunications business. BTC had previously obtained a GSM operator's license from the Commission for Regulation of Communication, for which it paid 54 million levs.

In July 2004 Bulgaria also hosted one of its largest green-field investments. The Turkish float glass and tableware glass producer, ªiºecam, started the construction of its two new factories in the North-East part of the country. The value of the direct investment in the project is cUS$160 million. The project should also have a material impact on the level of unemployment in the region.

With the privatisation of Bulgarian Telecommunications Company another significant sector, like banking before it, became completely private. The entire value of the agreement with Viva Ventures is estimated to be €1.1 billion. A further €700 million will be invested in BTC over the next 5 years.

Several foreign energy groups have submitted bids in the privatisation of the 7 regional electricity distribution companies and tenders for 8 new natural gas distribution regions are also proceeding.

The International Monetary Fund

According to recent reports, the International Monetary Fund and Bulgaria are close to agreement on a stand-by arrangement to provide support until EU accession in 2007, a two-year stand-by arrangement for US$300 million having expired in February 2004.

Under the proposed agreement, Bulgaria will be able to draw upon US$130–140 million in IMF funds, in exchange for which it will be required to push ahead with IMF-imposed economic measures.

Credit rating

The Standard & Poor's rating agency (S&P) has recently raised Bulgaria's long-term rating. The long-term local currency sovereign credit rating was upgraded to (BBB) from (BBB–), and the foreign currency sovereign credit rating upped from (BB+) to (BBB–). The perspective for the long-term ratings was changed from positive to stable.

According to Bulgaria's Finance Minister Milen Velchev, S&P's decision reflected Bulgaria's decreasing foreign debt burden (which, decreased from €11.1 billion, in June 2001, to €8.9 billion in 2003) and greater confidence in the fiscal policy of Bulgaria's government.

"The upgrade reflects the country's bright economic prospects and prudent fiscal policies," said S&P, which is the first global ratings agency to give Bulgaria an investment-grade foreign-currency rating. "The outlook is stable", it said in a statement.

Investment-grade ratings allow a far wider group of investors to consider buying a country's debt and make it cheaper for the sovereign to raise funds due to the perceived lower risk of default.

"Bulgaria's improved creditworthiness is supported by its high growth potential, prudent fiscal policies, and European integration, which is likely to lead to EU membership in 2007," S&P credit analyst Moritz Kraemer said in the statement. "The integration process will culminate in Bulgaria joining the European Monetary Union (EMU), most likely in 2010," he added. The ratings agency also said that Bulgaria's bright growth prospects are supported by strong competitiveness and political commitment to prudent macroeconomic policies.

The World Bank

Bulgaria joined the World Bank in 1990. Since then, the focus of the World Bank's assistance has been to foster sustainable economic growth and reduce poverty in the country.

In May 2002, the World Bank adopted its new Country Assistance Strategy (CAS) for Bulgaria for 2003 to 2005. The CAS, developed in close partnership with the Bulgarian government, serves as a roadmap for World Bank assistance to the country.

The Programmatic Adjustment Lending Programme (PAL) is the cornerstone of the World Bank's assistance to Bulgaria. It has been designed to support the government's economic and social programme, which builds on the first generation of reforms. The PAL programme comprises three loans for up to US$150 million each, and provides an umbrella of support to reforms across different sectors of Bulgaria's economy.

The first PAL was approved by the Bank's board in February 2003 and is targeted at improvements in the business environment, the restructuring of infrastructure sectors, and the further development of the financial sector. PAL 2 will aim at strengthening public administration, the judiciary, and anti-corruption initiatives, and PAL 3 will be focused upon improving delivery of social services.

To date, the World Bank has financed 33 operations in the country, a total commitment of cUS$1,820 million. It has conducted a broad range of analytical and advisory work in support of Bulgaria's reforms and transition to a market economy. The focus has been on improving public sector management and the business climate, implementing sector reforms, and alleviating poverty.

The EBRD

The EBRD's website states that Bulgaria, "has been well regarded for its pursuit of economic and financial reforms......improved political stability on a regional level has led to signing of free trade agreements with all neighbouring countries and an increasing role for Bulgaria as a regional energy hub. The proposed strategy aims to provide strong support to Bulgaria's efforts to accede to the EU".

"Over the past few years, Bulgaria has capitalised upon the good macroeconomic performance and strong financial discipline achieved following the adoption of a currency board regime in 1997 and the implementation of a tight fiscal policy thereafter. GDP growth has been robust, reaching 4.8 per cent in 2002, thanks to strong domestic investment growth, fuelled by a rapid expansion of credit to the private sector and further progress in structural reforms. Exports have continued to perform well in spite of the economic slowdown in the EU, Bulgaria's main trading partner".

"The Bank's activities and portfolio have increased substantially over the last 24 months, reflecting the positive developments in the country. The Bank is a major catalyst for investment in Bulgaria (cumulative business volume of €784.2 million as part of total funds mobilised of €3.2 billion) and is positioned to play a crucial role in helping the country through the challenges ahead. The objective is to fully and proactively support Bulgaria by further supporting the development of the private sector and expanding activities in infrastructure."

"The Bank will seek to play a key role in promoting post-privatisation investment and greenfield private sector projects in industry, tourism, agribusiness and natural resources, as the main source of attracting new FDI for the country. The Bank will broaden its geographical coverage of the micro, small and medium-sized private enterprises through carefully selected additional Bulgarian partner banks benefiting from SME credit lines. Technical assistance, such as provided by the EC, will support institution building and the implementation of effective and efficient lending programmes. The Bank will also place a key emphasis on supporting the development of non-banking FI sector, including the development of a three-pillar pension system, private insurance markets, leasing and mortgage financing."

INFRASTRUCTURE

Airports

There are three international and seven domestic airports in Bulgaria, of which Sofia is the largest, handling most international traffic; all are owned by the government but operate independently along commercial lines.

At Sofia a US$200 million expansion project is underway, extending the current single runway by 540m to a total of 3340m in order to accommodate larger aircraft. There will be additional taxi-ways and a further €123m loan has been agreed for the design and construction of a new passenger terminal building. A new parallel runway is to be built alongside the original. The airport will have a capacity of 2.5 million passengers a year (2500 per hour).

A feasibility study has been carried out for the modernisation of Bourgas airport on the Black Sea coast, which will also include a new cargo terminal together with modernisation of the runway areas, the passenger terminal and airport facilities. The cost of this upgrade is estimated at US$60 million.

Also on the Black Sea coast, the plans in place for Varna Airport provide for an extension to the existing runway, modernisation and expansion of the international departure lounges, improved and increased taxi-ways and a new cargo terminal. The airport radar equipment will be improved and the total cost of this is estimated at around US$100 million.

It is expected that low cost carriers, such as easyJet and Ryanair, will be attracted to the new and improved facilities. Franchises to run the improved airport facilities are currently out to tender. The concessions for Varna and Burgas airports are to be extended for up to 35 years as part of this process and over 20 companies from Germany, Belgium, Holland, Canada, and the UK have submitted tenders.

ACCESSION TO THE EU

According to the Bulgarian Foreign Investment Agency, the EU's Council of Foreign Ministers recently announced that negotiations for the accession of Bulgaria to the EU have been completed, Bulgaria having closed the last two chapters, "Competition" and "Other questions".

Bulgaria is expected to sign the contract for the accession to EU, signalling the official end of the negotiation process, in the spring of 2005. Following its accession, the EU has stated that Bulgaria will receive €4.25 billion from EU funds between 2007 and 2009.

This view was recently endorsed by EU leaders, who reaffirmed a goal for Bulgaria and Romania to join the bloc as a pair in 2007, despite lagging progress by Bucharest towards exacting EU membership standards. In summit conclusions, the leaders welcomed "the very substantial progress made by Bulgaria and Romania in the accession negotiations over the past months".

Under the EU's Irish presidency, Irish Foreign Minister Brian Cowen recently told a news conference, "We welcome the fact that Bulgaria have now completed their negotiations and such progress has been made with Romania".

EU accession in 2007 is expected to provide huge trading opportunities and to bring considerable benefits to Bulgarian infrastructure, with roads, rail, telecommunications and airports all to be upgraded. Projects totalling US$3bn, within a US$20bn economy, have already been announced.

Bulgaria has a population of c7.8 million and GDP totalling cUS$20 billion. GDP per capita is less than US$2,600, low by even Eastern European standards. Portugal, by comparison, has c10 million inhabitants and GDP of cUS$131 billion (as at 2002) and GDP per capita of cUS$12,616, nearly 5 times higher. Ten years ago, however, the Portuguese economy was similar in size to Bulgaria's.

TOURISM

As a result of the huge growth in tourism currently taking place in Bulgaria, airport expansions and upgrades are being given high priority. Approximately 2.3 million people visited the country in 2000. By 2002 this number had risen to c3 million and by 2003 it had grown to c3.5 million. Visitors are forecast to exceed 4 million in 2004. Approximately 15% of tourists visit from Germany and numbers are increasing sharply from Greece and the UK. Tour companies, including Thomas Cook, Neckermann and TUI already operate to and from the country.

The number of tourists from the EU has risen by over 46% since 2002. More than 1.2 million foreigners visited Bulgaria in the period between January and May 2004. A total of 57, 517 Britons visited Bulgaria during the same period, up 73% on the previous year. According to the World Tourism Organisation, Bulgaria will welcome c12 million tourists per annum by 2020.

Bulgaria's revenues from international tourism over the first three months of 2004 amounted to c€200 million, an increase of 28.8%.

The Bulgarian Federation of Golf is in the process of determining a strategy for the construction of courses throughout the country. Only the second course in Bulgaria opened recently near the town of Sliven, about 200 km east of Sofia and 100 km from the Black Sea coast.

The investor group includes Golf Creations, a company co-owned by Air Sofia and the Spanish operator, El Plantio, which specialises in the construction of golf courses, sports complexes and holiday resorts.

The project represents a step further in Air Sofia's investment programme, aimed at promoting golf tourism in Bulgaria. According to Golf Creations' CEOs Georgi Ivanov and Lilyan Todorov, Bulgaria needs at least 4 or 5 golf complexes to begin to attract the golfing tourist market. Another 3 are already planned.

The following is taken from an article published in the Daily Telegraph in January 2004:

"It was once the epitome of grim Communist uniformity, but Bulgaria is emerging as this year's hot destination for British tourists. Sales figures indicate that up to 200,000 Britons will travel to the Balkan nation's Black Sea resorts this summer, where the attractions include cheap drink, large sandy beaches and temperatures in the 80s.

One British tour operator has already named Bulgaria as the top place to visit this year, while a report in America last week also named it as being among the 10 best international destinations.

Thomson Holidays, Britain's largest tour operator, said that it had included Bulgaria in its brochure for the first time this year. The country, where a seven-day holiday in a three-star hotel, including bed and breakfast, costs from £259 per person, was already one of its three best-selling destinations, along with Florida and Cyprus.

"Bulgaria's biggest selling points are the great beaches it has 8 EU Blue Flags and sunny climate combined with attractions including wine tasting, aqua parks, ancient monuments, nature parks, music and flower festivals," said a spokesman for Thomson. "It's also really cheap when you get there—a pint of beer is 50p, a meal for two can be had for under £5, and a decent bottle of wine for around £2. The holidays are considerably cheaper than the equivalent in Spanish, Greek or Portuguese resorts."

Bulgaria's Black Sea resorts boast white sandy beaches, warm seas and temperatures that average 80F (26C) during the summer. The country, which is roughly half the size of Britain, also has mountains and lakes and claims to be the motherland of the mythical songster Orpheus and of the gladiator Spartacus, who led a slave revolt against the Romans.

The principal Black Sea resorts in Bulgaria are Albena, Golden Sands and Sunny Beach. Golden Sands lies close to Varna, another resort where Leonid Brezhnev, the former leader of the Soviet Union, holidayed during the Communist era. Todor Zhivkov, the former Communist leader of Bulgaria also used to take his holidays on the Black Sea, at the resort of Evksinograd.

Sean Tipton, a spokesman for the Association of British Travel Agents, said that Bulgaria was the fastest growing holiday destination for 2004 and that at least 200,000 Britons were likely to visit this year—nearly double last year's total. "Previously holidaymakers have been put off from visiting the country because it has been difficult to get there and because the accommodation was not up to standard," he said. "All that has changed in the last few years. At the moment it is fantastic value for money, but it won't stay that way for long."

First Choice Holidays, which has offered package holidays to Bulgaria since 2000, said that the country was its "star performer". Richard Curtis, its spokesman, said: "At a time when holiday bookings are down almost 25 per cent on last year to destinations across the board, Bulgaria's performance is phenomenal. We have already increased our sales of holidays to Bulgaria by 100 per cent and it is only the second week in January."

Marin Dimitrov, a spokesman for the Bulgarian Embassy in London, said that his country welcomed the influx of British tourists. "Bulgaria has a rich cultural and historical background that has a great deal to offer foreign holidaymakers,” he said. “We are delighted that people are recognising this and coming to visit our country. This is a very good thing for Bulgaria”.

RESIDENTIAL PROPERTY—BLACK SEA COAST

Bulgarian property prices are considerably lower than in other European countries and the anticipated accession to the EU should lead to continuing capital appreciation over the next 5 to 10 years. The market is still undeveloped and therefore provides considerable investment opportunity. This is partly due to the fact that prices have traditionally reflected the purchasing power of Bulgarian nationals and that mortgages were not widely available before 1997. Even today, with a developing mortgage market, overseas buyers are unable to secure housing finance in Bulgaria.

At present, approximately one third of residential purchases in Bulgaria are supported with bank credits; a c70% increase on 2003. According to reports, the Bulgarian mortgage market has grown 10 times since 1997 and yet the range of products is still rather limited by western European standards. Competition between the banks is, however, likely to result in considerable developments in the near future.

In 2003, Bulgarian residential property prices rose by between 24% and 28%, according to the Real Estates National Association’s chairman, Orlin Vladikov, in February 2004.

Land values are also increasing, owing partly to foreign investment and are expected to double if not treble in the next 3 years, to reach €400 p.sq.m along the Black Sea coast by 2007. At the moment, the peak real estate deals are signed at the price of €120 to €150 p.sq.m, while 2 years ago they ran at €20 to €30 p.sq.m, according to figures presented by real estate agents at a recent Economic Forum in Sofia.

The rise is likely to result from increasing demand and construction, as well as the increase in the number of tourists. In 2004 alone has seen the creation of 80 new construction sites in the area between the seaside resorts Bjala and Obzor.

Up to year 2007, the real estate agents predict growth in house prices and lending. “In 2003, we have 85% increase in the purchase of properties along the seaside, while the number of tourists is 16% more than the same last year”, announced Elizabeth Cheshmedjieva. She recommended investments in properties at the seaside and quoted the World Tourism Organisation according to which in the year 2020 Bulgaria will welcome 11 million tourists.

The most sought-after properties are on “first-line” sites, on the coast, in resorts such as Sunny Beach and the town of Nessebar, which are in short supply. In the next few years hotels, sports centres and holiday resorts will be built on a large scale in areas currently vacant along coast. Such regions are those near Bjala and Obzor, along the mouth of the River Kamchija, near Balchik (Tuzlata region) and in the region of Tzarevo, especially if the construction of an airport near Primorsko is completed.

Property prices vary. A rustic, 4 bedroom house near Veliko Turnovo, in need of work and without water, might cost £5,000, whereas seafront properties, for example, a new villa at Varna, where might cost £49,000 and a luxury, architect-designed seafront villa with a heated pool is likely to cost £170,000.

Restrictions on foreign ownership

Under Bulgarian law, foreigners may own buildings but not land. Most foreign purchasers, therefore, buy using special purpose Bulgarian companies. This restriction, another reason why property in Bulgaria is so competitively priced compared to western and central Europe, is however, likely to be lifted before 2007, as Bulgaria opens its doors fully in line with the rest of the EU.

The harmonisation of Bulgarian legislation with that of the European Union means that the property purchasing process is little different from the procedure in other European countries.

The real estate market in Bulgaria is (after ten years of transition from communism to a functioning market economy) just now starting to approach the conditions that already exist within more developed countries with respect to the processes of its own creation, market realisation and operation and to quantify it now as an emerging and independent new branch of the economy is probably quite valid.

In the tourist sector particularly, Bulgaria’s facilities were not up to recognised international standards. Standards are, however, rising, aided by initiatives such as the Marketing Strategy and Action Plan for Bulgarian Tourism prepared under the EU’s “Phare Program’ which has started to encourage both private and public sector initiatives to build, restore, modernise and refurbish facilities and accommodation for tourists.

OWNERSHIP OF PROPERTY

The current legal position

Foreigners are allowed to own buildings in Bulgaria but they are not allowed to own land. The simple solution is for property to be purchased through a Bulgarian company. Bulgarian law allows Bulgarian companies to be 100 per cent. foreign owned.

The Company will incorporate one or more Bulgarian subsidiaries which will be used for its local property investment activities.

Resolution laws

In common with other Eastern European countries, Bulgaria made provision for the return of property to owners whose property had been confiscated during the communist era. Land restitution was finalised in 2000, and the process of restitution of agricultural land was completed in 2001. At the end of 2002, 92% of woodlands and forest land had been restituted. A land parcels register is being established, and the second phase of land reform, which is the consolidation of land, has started.

PROPERTY TAXATION AND VAT

The real estate tax is an annual tax and amounts to 0.15% on the assessed value of the property. The tax base for legal entitles is the real estate's cost as per the balance sheet of the company (the real estate's net book value plus the accumulated depreciation costs). The real estate tax applies to land (but not to agricultural land and forests) and buildings. The tax is payable regardless of whether the immovable property is used or not. The tax liability is on the owners of the immovable property.

A sanitary fee is due by the owners of real estate. The amount of the fee is determined by the municipality per the location of the real estate. The basis for the fee calculation for legal entities is identical to the basis for real estate tax calculation.

A 2% state tax is paid upon the acquisition of immovable property based on its value.

For the transfer of property where notary certification is necessary, a notary transfer fee is due. It is defined in a regressive scale depending on the value of the transferred property. The fee cannot exceed Lev 3,000. In addition a notary fee of 0.1% of the value of the property is payable on registration.

VAT on property transactions and on development costs would normally be charged at the Bulgarian VAT rate of 20%. Land transfer transactions are VAT exempt.

CONSTRUCTION PROCESS

The Construction Permit forms the mandatory prerequisite for the *de facto* initiation of the construction process pursuant to Bulgarian law. Its issuance is preceded by certain other statutory regulated procedures; the necessity to accomplish some or all of these (listed below) depends on the specifics of the construction itself and the legal status of the land where the construction is to be effected. The Construction Permit issuance preceding procedures are as follows:

(i) change of land status from agricultural land into land with industrial designation;

(ii) environmental impact assessment ("EIA") of the construction;

(iii) Zoning Plan amendment;

(iv) Design Visa;

(v) Construction Designs approval;

(vi) EIA regarding construction designs;

(vii) Construction Permit.

I. Change of land designation status

Generally, the land designation in Bulgaria is formally determined based on its historical utilization and/or ownership, for example: agricultural land, forestry, industrial land.

Construction activities on agricultural land are prohibited, save for specific exemptions subject to specific procedural regime. Should a specific land plot have agricultural land status, a special procedure on change of the land status is to be carried out, in order that a potential construction thereon be permissible. The successful accomplishment of the change-of-status procedure is an irrevocable prerequisite for the issuance of Construction Permit. The procedure involves the Ministry of Agriculture and Forestry ("MAF") and its territorial departments, sitting with the territorial municipalities ("MAFTD").

II. EIA regarding Zoning Plan

Whether or not an EIA-procedure with regard to amendments of the Zoning Plan should be carried out is determined according to the provisions of the Environmental Protection Act ("EPA") and the Ordinance for Preparation of EIA regarding Plans and Programmes.

The Minister for Environment and Waters or the Director of the respective territorial Inspectorate for Environment and Water ("IEW") are competent to evaluate and decide on the necessity of EIA preparation, depending on the specifics of each separate project. The party who is interested in Zoning Plan amendments should submit an application in this regard to the competent authority. Decision from the authority must be issued within three months' after the application is submitted.

III. Zoning Plan (Urban Development Plan)

Pursuant to the Bulgarian Territorial Development Act ("TDA") construction development is regulated by means of Zoning Plans approved by the competent Bulgarian authorities. There are several types of statutory provided zoning plans (e.g. general, detailed, working, etc.). The main construction parameters as admissible construction height, density and intensity of construction as well as any other requirements if any are indicated on the detailed zoning plan ("Zoning Plan").

If there is no Zoning Plan for a particular land area, or the existing one does not allow the construction of planned units/facilities, a procedure should be initiated in order for such a plan to be prepared or amended. The Mayor of the respective administrative unit, or the land plot owner/holder of *in rem* construction rights, are empowered by law to initiate the procedure.

According to law the procedure for adoption (i.e. approval) of a new Zoning Plan or the introduction of an amendment to the existing one requires the following steps:

(i) application to the Major for initiating the procedure, if the amendment procedure does not fall within the ones that the Major *ex officio* is bound to initiate (*please refer to section II (a)* above);

(ii) within 14 days after submission of the application to the Major, the latter should allow the procedure initiation. An announcement in this regard is to be published in the city hall;

(iii) a draft Zoning Plan/amendment to the Zoning Plan should be prepared by a licensed architectural company;

(iv) notification to the interested parties that the draft Zoning Plan has been prepared should be made. Within 14 days after the notification, the interested parties can submit their written objections to the draft Zoning Plan;

(v) within one month after the expiry of the said 14-days term, the draft Zoning Plan is to be adopted by the municipal expert council with the Municipality;

(vi) after the draft Zoning Plan has been adopted by the municipal expert council, it should be approved by the Major of the municipality by means of an official order. A 14-days term is provided for the order to be issued;

(vii) notification to the interested parties on the issuance of the order which approves the Zoning Plan should then be made. Such parties are granted 14 days after their receipt of the notification to file appeal against the order with the Mayor. In the event that no legal action has been taken within the said period, the order and the Zoning Plan respectively enter into effect. If appeals are filed, the procedure is taken to court for settlement and the effect of Mayor's order is postponed until such court settlement is accomplished.

IV. Design Visa

Pursuant to the provisions of Art 140 of DTA the design visa ("Design Visa") is an official document issued by the Chief Architect of the Municipality where construction activity is to commence. The Design Visa represents an official copy of the Zoning Plan which includes the land plot (where construction is to be carried out) and the neighbouring land plots, with indications of existing/planned buildings/construction, the admissible construction height, density and intensity of construction as well as any other requirements. The Design Visa is not a mandatory prerequisite for the Construction Permit as per the effective Bulgarian legislation. It is often used in practice by real estate developers, however, as a tool to obtain officially clarification on the allowed construction parameters in a specific land plot.

The Design Visa should be issued within 14 days after an application to this effect before the Chief Architect of the Municipality is made by the land plot owner/the person to whom the *in rem* right of construction on the land plot is granted.

V. Construction designs

As per the statutory provisions the constructions are performed in accordance with construction design(s) coordinated with and approved by the Chief Architect of the Municipality where construction is to be performed. A valid and final Construction Permit can only be issued on the basis of such designs.

Construction designs themselves can be worked out at the following stages:

(i) preliminary design;

(ii) technical design;

(iii) working design (working drawings and details).

Depending on the specific characteristics and complexity of the units/facilities to be built, the construction designs can be worked out in one stage (e.g. as technical design), two stages (e.g. as preliminary design plus working design) or three stages (as listed above). However, no final Construction Permit can be issued only on the basis of preliminary design.

Pursuant to the provisions of Ordinance #4 for the Content and Scope of the Construction Designs all construction designs should comprise certain legally determined sections: e.g. architectural section, constructional section, vertical planning, planning of the internal infrastructure, etc.

No time-frame is legally provided for the preparation of the construction designs.

VI. EIA regarding construction designs

As an obligatory prerequisite for the coordination and approval of the construction designs the environmental impact of the project should be assessed by the competent authorities according to the provisions of EPA.

In the event that the complex to be built has an utilizable area of more than 10,000 sq. m. or it is estimated that an EIA should be carried out (if the utilizable area is less than 10,000 sq. m.), the following steps are to be undertaken as per the law:

(i) an EIA report regarding the construction designs should be presented by the investor to the competent authorities;

(ii) within 14 days after the EIA report has been presented, it should be reviewed by the competent authorities;

(iii) if the EIA report is reviewed positively, a public discussion on the matter shall be organized. The discussion could be carried out at least one month after an announcement in this regard has been made;

(iv) within 7 days after the discussion has been carried out, the interested parties express and submit in writing their opinion on the matter;

(v) within 3 months after the discussion has been carried out, the competent authorities shall issue a final decision on the environmental impact of the construction designs.

VII. Construction Permit

Pursuant to Art 148 of TDA, the Construction Permit is a valid and final administrative act, issued by the competent Bulgarian authorities, which enables the construction on the land plot to be implemented.

The Construction Permit is to be issued within 7 days after an application in this regard has been submitted by the interested party-investor, only if the respective construction design(s) have been coordinated and approved *(see above)*.

The Chief Architect could decline the Construction Permit request. Irrespective of the fact whether the Construction Permit has been issued or not, the interested parties should be notified on the matter. The issuance of the Construction Permit as well as the refusal for such issuance can be appealed before court within 14 days after the notification. Within 14 after the notification receipt, they could appeal against the respective administrative act (i.e. the issued Construction Permit or the refusal of issuance of such act).

After the expiry of the appeal term, the Construction Permit enters into force.

PART III

PROPERTY MARKET REPORT

BLACK SEA COAST RESIDENTIAL PROPERTIES

February 2005

COLLIERS INTERNATIONAL

Business Park Sofia
Mladost 4, Building 13, III
1715 Sofia, Bulgaria

Tel: (+359 2) 976 9 976
Fax: (+359 2) 976 9 977

www.colliers.com

1 General Overview

Bulgarian real estate market has gone through several cycles with only the residential segment keeping a steady increase of sale prices in the last three years.

The market for second-home buyers of residential properties on the Black Sea coast is relatively new. As Bulgaria's reputation as a tourist destination increases and the tourist industry grows (2003–17.5%; Q3 2004–17%; *source: National Statistic Institute*) the market for second-home buyers has increased significantly as well. Most of the buyers are foreign individuals.

2 Sale Prices

The most desired locations for second-home developments are Golden Sands resort (on the northern Black Sea coast, close to Varna) and Sunny Beach and Nessebar (on the southern Black sea coast, close to Burgas). Sale prices of apartments in gated compounds in both areas mentioned above vary between EUR 850 and EUR 900 per square metre. Top prices reach EUR 1,200 per square metre.

3 Forecast

We expect prices to vary within the following three years between EUR 1,200 and 1,500 per square metre.

In addition, the northern Black Sea coast is still not developed, which leaves room for a more favourable development compared to the two areas mentioned above. The Sunny Beach and Golden Sands resorts were developed during the communist regime and then redeveloped after the changes in privatization transactions, thus lacking proper master planning. We expect that this uncontrolled pattern of development will be avoided in the undeveloped areas in the north (Shabla, Kavarna, Obzor) and the south (Djuni, Tsarevo, Sinemorets), which is expected to result in higher prices and more up-scale developments.

PART IV
RISK FACTORS

PROPERTY SHARES

Investment in the Property Shares will involve risks due to its gearing and the inherent illiquidity of its underlying assets and should be viewed as long term. In particular, prospective investors should consider the following factors before making any decision to purchase Property Shares, and should consult their stockbrokers, bank manager, solicitor, accountant or other independent financial adviser before investing.

General

An investment in the Property Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested). Such an investment should be seen as complementary to existing investments in a wide spread of other financial assets and should not form a major part of an investment portfolio. Investors should not consider investing in the Property Shares unless they already have a diversified investment portfolio.

Liquidity of Property Portfolio

Investors should note that the Property Portfolio represents an illiquid investment since there is no established market for trading of investment property.

Share price volatility and liquidity

Investors should recognise that the price of securities and the income from them can go down as well as up. The market price of the Property Shares may not always reflect their underlying net asset value. The price performance of the Property Shares is expected to represent an amplification of any upward or downward market movement affecting the value of the Property Portfolio, due to the effect of gearing described under the heading "The Property Portfolio—Gearing" in Part I above.

Investors will have no right to redeem Property Shares. Prior to the end of the Fund's planned life, the only way to realise Property Shares will be by sale in the market.

The price at which the Property Shares may trade and the price which investors may realise for their Shares will be influenced by a large number of factors, some specific to the Fund and some which may affect quoted companies generally. These factors could include the performance of the Fund's operations, large purchases or sales of Property Shares, liquidity (or absence of liquidity) in the Property Shares, currency fluctuations, legislative or regulatory changes and general economic conditions. The value of the Property Shares will therefore fluctuate and may not reflect their underlying asset value.

Possible adverse economic conditions and emerging market risk

The financial operations of the Fund may be adversely affected by general economic conditions, by conditions within the Bulgarian property market or by the particular financial condition of the developers and other parties doing business with the Fund. The returns that are likely to be achieved on an investment in a fund which has its assets invested solely in Bulgaria will be materially affected by the political and economic climate in Bulgaria. In particular, changes in the rates of inflation and interest may affect the Fund's income and capital value or the value of an investment property.

The performance of the Property Shares can be expected to be adversely affected by any failure or delay in Bulgaria joining the EU.

A deterioration in the Western European economies can be expected to have an adverse effect on the amount of money spent on tourism and accordingly on property prices in Bulgaria.

Bulgaria has many characteristics of an emerging market and should be regarded as carrying associated risks of political and economic instability.

The Fund will be making investments in Bulgaria. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including but not limited to nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange or repatriate foreign currency.

Parliamentary elections are due in July 2005 which may lead to a change of government in Bulgaria. New policies may be introduced which could have an adverse effect on the prospects for the Fund.

Corruption in Bulgaria

Corruption is perceived as a problem in Bulgaria. However, the issue is high on the political agenda and the Bulgarian government has adopted measures to combat corruption.

The European Commission 2003 report on Bulgaria's progress towards accession stated Bulgarian "public opinion still perceives corruption as a problem. The fight against corruption remained high on the political agenda of the government. Following the adoption of a National Strategy against corruption (October 2001) and an Action Plan (February 2002) various pieces of the national legislation have been amended to align with the main international instruments in the fight against corruption. The new measures should now be fully enforced". The report concluded that "Corruption remains a problem, and Bulgaria should maintain concerted efforts to implement measures in this respect. The fight against corruption remained high on the political agenda and further measures in this context were adopted".

Risks of property ownership

Investments in Bulgarian property may be difficult, slow or impossible to realise. The Property Shares will be subject to the general risks incidental to the ownership of real or heritable property, including changes in the supply of or demand for competing investment properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and landlord/tenant or planning laws, credit risks of tenants and borrowers and environmental factors. The marketability and value of any investment properties owned by the Fund will, therefore, depend on many factors beyond the control of the Fund and there is no assurance that there will be either a ready market for any investment properties of the Fund or that such investment properties will be sold at a profit or will yield a positive cash flow.

Changes in Bulgarian law relating to foreign ownership of property might have an adverse effect on the net returns from the Property Portfolio.

Controlling person liability

The Fund is expected to have controlling interests in some of its investments in special purpose real estate companies or other entities or may own such properties directly. The exercise of control over an entity (or the property itself) can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund might suffer a significant loss.

Development risk

The returns on the Property Shares will be subject to the risks associated with the development of real estate projects. These risks include:

- The risk that the developer of a site may become insolvent and be unable to complete the project. It is expected that developments in which the Fund will invest will be financed by a mixture of equity, deposits on pre-sales and bank financing. The release of bank financing will be staged and conditional on milestones in the development being reached. In the event that the development does not proceed as expected (due to unexpected factors such as landslip, accident, supplier default, planning or title disputes etc.), the bank may refuse to provide further financing. If the developer is unable to arrange alternative financing, it may not be possible to complete the development. This may result in the loss of a deposit paid by the Fund;
- The risk that planning consents are not obtained, or are delayed significantly, or are granted subject to uneconomic conditions;
- The risk that laws are introduced, which may be retrospective and affect existing building consents, which restrict development along the Black Sea coast or other areas of natural beauty;
- The risk that a development is significantly delayed or costs exceed budget due to unforeseen factors. The risk of cost over run can be mitigated through fixed price contract arrangements;
- The risk of unforeseen construction constraints (including geological and archaeological factors);

- The risk of title disputes, legal disputes with neighbouring land owners and legal disputes with architects, project managers and suppliers;
- The risk that building methods or materials prove to be defective. If a construction company used on a development becomes insolvent, it may prove impossible to recover compensation;
- The risk of fraud on the part of service providers or suppliers used on a development.

Potential environmental liability

Under various state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation or certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for removal of these substances. The owner's liability as to any property is generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to remediate properly contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Fund's return from such investment.

Substantial loss

If property prices in the Black Sea property market fall by more than the discounts to current market value achieved by the Fund when it exchanges contracts, investment properties held in the Property Portfolio may only be realisable at a loss and may prove difficult to sell at all. In these circumstances, the Fund may complete on the purchase of investment properties and let them. The ability of the Fund to complete on purchases is dependent on the amount of equity available to the Fund, and on the borrowing terms available at the time, which may not be the same as are available today. A combination of higher interest rates, a deteriorating economy (with higher unemployment) and prolonged deflationary conditions, may result in falling capital values combined with falling rents and/or void periods.

Gearing

The Property Portfolio will be highly geared by virtue of acquiring investment properties on deposit.

The Fund will be highly geared through exposure to the current market value of investment properties on the making of a deposit and might also be geared through mortgage borrowings. The Fund's borrowings, if any, will be secured on assets in the Property Portfolio. Where the cost of the Fund's borrowings exceed the return on the Fund's assets, the borrowings will have a negative effect on the Fund's performance. A relatively small movement in the value of the Property Portfolio or the amount of income derived from it may result in a disproportionately large movement, unfavourable as well as favourable, in the value of a Property Share or the amount of income received in respect thereof.

In the event that the Fund enters into a bank facility agreement, such agreement may contain financial covenants. In particular, the agreement may require that the Fund has assets exceeding a fixed percentage of the value of any loan drawn down. If the value of the Fund's assets falls such that any such financial covenant is breached, or if any other covenant is breached, the Fund may be required to repay the borrowings in whole or in part. In such circumstances the Fund may be required to sell, in a limited time, part or all of the Property Portfolio, potentially in circumstances where there has been a downturn in property values generally, such that the realisation proceeds do not reflect the valuation of the investment properties.

Developer and counterparty risk

If projected returns on investment properties are not met or if development companies become insolvent, the Fund may lose some or all of its investment. Developers may become insolvent and fail to complete a development in which the Property Portfolio has invested. Although deposit amounts are generally held in escrow, they might not be in all cases and developer insolvency may result in loss to the Fund. Counterparties to whom the Fund sells investment properties may default on payment of the purchase price and tenants to whom the Fund rents investment properties may default on rental obligations.

Bulgarian legal system and enforcement

The Bulgarian legal system may not afford to the Fund the same level of certainty in relation to issues such as title to property-related rights as may be achieved in more development markets. Enforcement of legal rights in Bulgaria may prove expensive and difficult to achieve.

Impact of law and governmental regulation

The Fund and developers with whom the Fund deals will need to comply with Bulgarian regulations relating to planning, land use and development standards. The institution and enforcement of such regulations could have the effect of increasing the expense and lowering the income or rate of return from, as well as adversely affecting the value of, the Fund's assets. Changes in law relating to ownership of land could have an adverse effect on the value of the Property Shares. New laws may be introduced, which may be retrospective and affect existing building consents, which restrict development along the Black Sea coast or other areas of natural beauty.

Valuation risk

Property assets are inherently difficult to value as there is no liquid market or pricing mechanism. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the date of the valuation.

Bulgarian property related taxes

The returns on the Property Shares will be affected by Bulgarian taxation of property transactions, which may change. There is no assurance that the expected tax efficiencies of the Fund will be achieved or will continue into the future.

Currency risk

Investors in sterling and dollar denominated Shares should be aware that movements in the rate of exchange between the euro and sterling or dollars could have an adverse effect on returns to investors. The Fund will not hedge the exchange rate risk on the Property Portfolio between euros and sterling or US dollars. Any change in the value at which the lev is pegged to the euro may have an adverse effect on returns to investors.

CAPITAL PROTECTED SHARES

The performance of the Capital Protected Shares and the return of capital to holders of Capital Protected Shares is not guaranteed. The proceeds of the issue of the Capital Protected Shares will be invested in UK, European Union or US government securities, or in medium term notes issued by one or more banks having a Standard and Poors credit rating of no less than AA–. The government securities and/or medium term notes acquired will be designed to yield at maturity a gross amount equivalent to the Capital Protected Amount payable on the Maturity Date of the relevant Capital Protected Shares but the return of this amount is dependent on the performance of the relevant portfolio of government securities and/or medium term notes which is not guaranteed.

The returns on the Capital Protected Shares will be subject to the risk of default by the issuers of the government and/or medium term note securities held by the Capital Protected Subsidiaries.

Changes in taxation in Jersey or elsewhere or the imposition of withholding taxes could reduce the net return to holders of Capital Protected Shares to below the amounts referred to in this document.

If the Fund was to become responsible for the liabilities of the Property Portfolio, this could affect the returns on the Capital Protected Shares. However, the liabilities of the Property Portfolio will be assumed by the Property Subsidiary (or its subsidiaries) and these liabilities will therefore be segregated from the Fund, the Sterling Protected Subsidiary, the Dollar Protected Subsidiary and the Euro Protected Subsidiary.

Return of the Capital Protected Amounts to holders of the Capital Protected Shares is subject to the risk of fraud or misappropriation of funds which cannot be entirely eliminated.

TAX

The attention of potential investors is drawn to Part VI headed "Taxation". The tax rules and their interpretation relating to an investment in the Fund may change during the life of the Fund.

Any change in the Fund's tax status or in taxation legislation or its interpretation, could affect the value of the investments held by the Fund, affect the Fund's ability to provide returns to Shareholders or alter the post-tax returns to Shareholders. Representations in this document concerning the taxation of the Fund and its investors are based upon current tax law and practice which is, in principle, subject to change.

PART V

MANAGEMENT, ADVICE AND ADMINISTRATION

THE MANAGER

The Fund will be managed by Development Capital Management (Jersey) Limited, a fund management company incorporated on 22 April 2003 and based and regulated in Jersey. The Manager has entered into a Management Agreement pursuant to which it will be responsible for the management of the Fund's investment portfolio and the general oversight of the Fund's affairs. The Management Agreement will be subject to termination by the Fund on one year's notice expiring no earlier than the third anniversary of Admission.

The directors of the Manager are listed below.

Tony Able (Jersey resident). Mr Able's background and experience is in the trust and company administration business within the Channel Islands, Switzerland and the Caribbean. His professional career and training commenced with Price Waterhouse and Bank of America. In the early 1990s, he formed and was chairman of Atlantique Trust Group until it was sold to IFG Plc in late 2000. Since then he has been and is a consultant to a number of investors and private client groups as well as being active in real estate and other investments projects in various parts of the world. He has 30 years experience of Eastern Europe and Russian culture and markets.

Andrew Gardiner (UK resident). Mr Gardiner has sourced and coordinated private syndicates trading early stage residential properties for over 7 years. He is a qualified lawyer, spent 5 years working for the City and international law firm Norton Rose and is a founder of the Manager. He is also a director of the Manager's UK based subsidiary, a property consultancy and advisory business which acts as adviser to The Off-plan Fund Limited and other investment vehicles.

David Keep (Jersey resident). Mr Keep is Managing Director of BNP Paribas Fund Services Jersey Limited. He has many years experience within the offshore fund industry having worked for Allied Irish Banks, p.l.c. for fifteen years as Managing Director of their offshore fund management unit and, previous to that, within an auditing and accounting function in Jersey. Present directorships include the following management companies: AIB Fund Managers (CI) Limited, AIB Govett Management (Jersey) Limited, AIB Govett (Channel Islands) Limited, Newton Fund Managers (CI) Limited and Threadneedle Investment Company Limited. He is also Director of a number of Offshore Funds including the Govett Securities and Investments Limited, Govett Safeguard Funds Limited and Threadneedle Jersey Funds Limited.

THE PROPERTY PORTFOLIO

The Property Investment Adviser

The Manager will be advised on the investment of the Fund's assets in the Property Portfolio by Development Capital Management (Bulgaria) plc, a newly established property advisory company, based in Varna, Bulgaria.

The Board of Directors of the Property Investment Adviser is as set out below:

Terry Guilder. Mr Guilder has worked for over 25 years as a stockbroker and investment adviser, covering global equity, equity related and bond markets with companies such as Société Générale, CIBC and Bank Julius Baer. In 2000 he was instrumental in establishing the London office of a Dutch private bank, which he was involved in running for the last 4 years. During this period he has spent considerable time sourcing and evaluating Bulgarian property investment opportunities and has established strong relationships with local contacts. He is also on the managing boards of Bulgarian Property Investment Trust plc ("BPIT") and Black Sea Investment Trust plc ("BSIT"), the owners of the land over which the Initial Property Options have been granted.

Andrew Mitchell. Mr Mitchell is a director of the Development Capital Management Limited (the London based subsidiary of the Manager). Before joining in 2004, Mr Mitchell was a partner for 8 years and head of investment funds at Norton Rose, the City and international law firm. Mr Mitchell is on the supervisory boards of BPIT and BSIT.

Thomas Pridmore. Mr Pridmore has sourced and coordinated private syndicates trading early stage residential properties for over 7 years. He worked as a lawyer at Norton Rose and is founder of the Manager. He is also a director of the Manager's UK based subsidiary, a property consultancy and advisory business which acts as adviser to The Off-plan Fund Limited and other investment vehicles. Mr Pridmore is on the supervisory boards of BPIT and BSIT.

Sava Sabev. Mr Sabev, a Bulgarian national, has experience in the financial sector as a fund manager trading different financial products for UK based investment funds. His experience in the financial sector was gained while working for Citibank, Chase Manhattan Bank and later Clayvard Asset Management and Montgomery Asset International. In 2000, Mr Sabev established his own investment fund, the local Bulgarian subsidiary of which is involved in privatisation projects in the area of telecommunications, transport and real estate. Mr Sabev is on the managing boards of BPIT and BSIT.

Antoni Slavinski. Mr Slavinski, a Bulgarian national, is a former Bulgarian Minister of Telecommunications and Transport. Mr Slavinski gained his administrative and managerial experience whilst employed in the capacity of an Executive Director of the State owned National Telecommunication Company. Before that he was a Director of the strategic development, and research and development departments in the company. Mr Slavinski is on the supervisory boards of BPIT and BSIT.

George Todorov. Mr Todorov, a Bulgarian national, has experience as a successful entrepreneur in the construction and catering sectors. Mr Todorov's local construction company has been involved in hotels and apartment block construction projects. Mr Todorov is on the managing boards of BPIT and BSIT.

CUSTODY, REGISTRAR, ADMINISTRATION AND SECRETARIAL ARRANGEMENTS

BNP Paribas (Jersey branch) will act as custodian to the Fund and Securities holding agent of the Fund and in that capacity will as nominee for the Fund, hold legal title to securities acquired for the Capital Protected Subsidiaries pursuant to the terms of the Securities, Nominee and Custody Agreement (as more particularly described in paragraph 6 of Part VIII).

BNP Paribas Fund Services Jersey Limited will provide administration and secretarial services to the Fund.

Capita IRG (Offshore) Limited will act as Registrar to the Fund.

A summary of the fees payable to the Custodian, the Administrator and the Registrar and the terms and conditions upon which they are engaged can be found at paragraph 6 of Part VIII.

STRATEGIC ADVISER

Colliers International has been appointed to act as Strategic Adviser and external valuer for the purposes of valuing the investment properties of the Fund. As Strategic Adviser, Colliers International will appraise investment properties proposed by the Property Investment Adviser and prepare any independent valuation report to be submitted to the Fund and the Manager. The Fund will pay the Strategic Adviser valuation fees and commission related to any acquisition or sale of property sourced by the Strategic Adviser.

Colliers International is among the top three leading worldwide real estate consultancy companies, with its office in Bulgaria holding the market leading position. Colliers International provides property consultancy, development and investment consultancy, and professional services to commercial, industrial, retail, residential and leisure property clients. With almost 60 staff, it operates out of Sofia. The company was formed in 1991 and joined Colliers International in 1999.

VALUATIONS

The Property Portfolio will be valued as at the close of business on each half yearly Property Valuation Date by the Strategic Adviser. Investment properties in respect of which the Fund has not completed will be valued in accordance with guidelines approved by the Board. Investment properties in respect of which the Fund has completed will be valued on an open market basis. Pre-contract negotiations to buy or sell Property will be disregarded for valuation purposes.

The net asset value of the Property Shares and the Units will be calculated calendar quarterly based on the half yearly valuation of the Property Portfolio and a calendar quarterly valuation of the Sterling Protected Subsidiary and the Dollar Protected Subsidiary. This quarterly valuation will be announced to the London Market through a Regulatory Information Service.

The Property Portfolio will be valued in euros and converted into the currency of the relevant Share class for reporting purposes.

The Manager may also, at its discretion, arrange for additional valuations from time to time if market conditions warrant it.

FINANCIAL INFORMATION AND REPORTS

The first accounting period of the Fund will run until 31 December 2005 and, thereafter, accounting periods will end on 31 December in each year. The audited annual accounts will be sent to Shareholders within four months of the year end to which they relate. Unaudited half yearly reports, made up to 30 June, are expected to be sent to Shareholders in September of each year commencing in 2005.

The audited annual accounts and half yearly reports will also be available at the respective registered offices of the Administrator and the Fund.

FEES AND EXPENSES

Launch costs

The Fund will pay the Manager a structuring fee equal to 1% of the gross proceeds of the Offer in return for the structuring advice provided in connection with the Fund's launch.

In addition, the Fund will pay the Manager an amount equal to 3% of the gross proceeds of the Offer. The Manager has, in return, agreed to meet all of the costs of the launch of the Fund including the costs of Admission, and legal, taxation, property consultancy and accountancy advice (but excluding the Manager's structuring fee).

The structuring fee and 3% initial expenses will be allocated pro rata to each Share class, so that each class of Share bears an equal proportion of the launch costs of the Fund.

The Fund will pay commission to distributors of 5% of the Offer Price of each sterling and dollar denominated Share sold, and 3% of the Offer price of each euro denominated Share sold. Additional commission of up to 5% of the Offer Price may be charged to investors by distributors of euro denominated Shares.

Management fee

The Manager will receive a management fee quarterly in advance of 2% per annum of the amount subscribed on the issue of Property Shares plus capital gains retained for investment in the Property Portfolio. The fees of the Property Investment Adviser will be met by the Manager.

Performance fee

The Manager may also receive a performance fee from the Fund determined as follows.

On the sale of an investment held in the Property Portfolio, the Manager will be due a performance fee of 20% of the excess of the net cash proceeds from the sale (plus the aggregate of any rent received on the investment while held by the Fund less mortgage interest) over the Property Hurdle up to 100%, and 30% of any gains generated in excess of this amount. For these purposes, the "Property Hurdle" is a 10% compound per annum return on the amount of the deposit paid on the relevant investment property.

80% of the performance fee calculated will be payable to the Manager within 30 days of the receipt of the sale proceeds of the investment. The balance will be paid at the same time into an escrow account invested in money market deposits (unless otherwise agreed between the Manager and the Fund).

At the end of the seventh financial year period of the Fund following Admission, or the earlier liquidation of the Fund, the Fund's IRR on the net proceeds of the issue of Property Shares under the Offer will be calculated (the "Final IRR") and the total performance fee due ("TPFD") calculated as 20% of the extent to which the Final IRR exceeds the Property Hurdle up to 100%, and 30% of any gains generated in excess of this amount.

If the amount of the performance fee previously paid to the Manager plus the amount in the escrow account is less than TPFD, the Manager will be paid the escrow account plus a further payment from the Fund to bring the total to equal the TPFD. If the amount of the performance fee previously paid to the Manager is less than TPFD by less than the amount in the escrow account, the Manager will receive a payment from the escrow account to bring the total payments up to the TPFD. If the amount of the performance fee previously paid to the Manager is more than TPFD, the Manager will receive no further payment (but no claw back of performance fees previously paid will be made).

On an early termination of the Management Agreement, for the purposes of calculating TPFD, the Fund will be treated as if it had liquidated and realised cash proceeds from the Property Portfolio at Open Market Value.

In the event that there is a further issue of Shares, a Share redemption or other capital reorganisation of the Fund, the calculation of the performance fee may be appropriately adjusted as advised by the auditors of the Fund. The Board will be entitled to seek an independent valuation of the Property Portfolio for the purposes of determining performance fees due.

Capital Protection Manager

F&C Management, as manager of the Capital Protected Subsidiaries, will receive a first year structuring charge of between £100,000 and £180,000 (if the Offer is fully subscribed) and an annual management fee on a sliding scale of between 0.10% and 0.18% of the value of the Capital Protected Subsidiaries' assets. The structuring charge will be met from the proceeds of issue of the Capital Protected Shares and the annual management fee will be paid from income generated by the Capital Protected Subsidiaries.

Other on-going operating costs

The Manager will be reimbursed its out of pocket expenses, including travel expenses of up to €70,000 per annum.

The Custodian, the Administrator and the Registrar will receive an annual fee from the Fund at market rates.

The Strategic Adviser will be entitled to receive fees, payable by the Fund, at arms' length rates agreed from time to time by the Manager and approved by the Board. Fees paid to the Strategic Adviser will be disclosed in the periodic reports of the Fund.

The Fund will bear its on-going operational expenses. These expenses include, but are not limited to:

(a) direct costs of investing and realising the assets of the Fund, including dealing costs, any stamp duty and registration fees;

(b) professionals' costs associated with investing and realising the assets of the Fund, including the fees and expenses of Colliers International, surveyors, valuers, sales agents, consultants, tax advisers, brokers, lawyers and accountants (including introductory fees payable to any sales agents and corporate finance fees);

(c) fees and expenses of specialist property advisers, including letting agents and architects;

(d) legal and professional expenses which the Manager incurs whether in litigation on behalf of the Fund or in connection with the ongoing administration of the Fund or otherwise;

(e) the cost of borrowings incurred for the Fund (including up front arrangement fees payable to lenders in return for providing loan facilities and interest payable in respect of the borrowings);

(f) Directors' fees and expenses;

(g) audit costs;

(h) taxes and duties imposed by any fiscal authority and any other governmental fees;

(i) costs of valuing and pricing assets and of publishing share prices and other notices in the financial press;

(j) expenses of publishing reports, notices and proxy materials to Shareholders;

(k) expenses of convening and holding meetings of Shareholders;

(l) expenses of preparing, printing and/or filing all reports and other documents relating to the Fund including placement memoranda, explanatory memoranda, marketing documents, annual, semi-annual and extraordinary reports required to be lodged with all authorities having jurisdiction over the Fund;

(m) expenses of making any capital distributions; and

(n) insurance premia (including insurance for members of the Board).

PART VI

TAXATION

The following information is based on the law and practice currently in force in the UK, Jersey and Bulgaria. The information is not exhaustive and, if potential investors are in any doubt as to their taxation position, they should consult their professional adviser. Investors should note that tax law and interpretation can change and that, in particular, the levels and bases of, and reliefs from, taxation may change and that changes may alter the benefits of investment in the Fund.

UK taxation

The Fund

It is the intention of the Directors to conduct the affairs of the Fund so that the central management and control of the Fund is not exercised in the United Kingdom and so that the Fund does not carry out any trade in the United Kingdom (whether or not through a permanent establishment situated there). The Fund will thus not be resident in the United Kingdom for taxation purposes. On this basis, the Fund should not be liable for United Kingdom taxation on its income and gains.

UK Shareholders

Shareholders who are resident in the United Kingdom for tax purposes may, depending on their circumstances, be liable to United Kingdom income tax or corporation tax in respect of dividends paid by the Fund. The following statements refer to a Shareholder who acquires and holds the Shares as an investment:

(a) Dividends received by a Shareholder who is resident or ordinarily resident in the United Kingdom for taxation purposes will be chargeable under Schedule F.

Such a Shareholder is not entitled to a tax credit in the United Kingdom in respect of a dividend received from the Fund and will be liable to income tax on the dividend. As such, the tax liabilities referred to below will be payable by such Shareholders.

For such Shareholders who are individuals and liable to income tax at the starting or basic rates, dividends received from the Fund would be liable to income tax at the Schedule F ordinary rate, currently 10% of the dividend paid. For such individual Shareholders who are liable to income tax at the higher rate, dividends received from the Fund would be subject to income tax at the Schedule F upper rate, currently 32.5% of the dividend paid.

A UK resident corporate Shareholder will be liable to corporation tax on the dividend paid.

(b) In the case of those Shareholders who are individuals or otherwise not within the charge to corporation tax, capital gains tax may be payable on a disposal of Shares. Taper relief may be available to reduce the amount of any chargeable gain on disposal. No indexation allowance will be available to such holders. Individual Shareholders are entitled to an annual exemption from capital gains. For the 2004/2005 tax year this is £8,200. Shareholders within the charge to corporation tax may claim indexation allowance to reduce any chargeable gain arising on disposal of the Shares.

It is not anticipated that the Fund would be regarded as a close company if it were resident in the UK. Therefore, capital gains realised by the Fund should not be attributed to Shareholders under section 13 of the Taxation of Chargeable Gains Act 1992.

(c) The Directors intend to manage the Fund's affairs such that it should not be regarded as a collective investment scheme for the purposes of section 235 Financial Services and Markets Act 2000. On this basis a shareholding in the Fund should not be regarded as a material interest in an offshore fund for the purposes of Sections 757 *et seq* of the Income and Corporation Taxes Act 1988 (the "Taxes Act"). On this basis, gains realised on such holdings should not be subject to tax as income under that legislation.

(d) A UK resident corporate Shareholder who, together with connected or associated persons, is entitled to at least 25% of the Shares should note the provisions of the controlled foreign companies legislation contained in Sections 747 *et seq* of the Taxes Act.

(e) The attention of individuals ordinarily resident in the United Kingdom is drawn to the provisions of section 739 and 740 of the Taxes Act which may render such individuals liable to tax on the income of the Fund (taken before any deduction for interest) in certain circumstances.

UK Shareholders—taper relief

In certain circumstances, individual Shareholders may be able to claim business asset taper relief ("BATR"), thereby reducing the effective rate of taxation for UK individuals on disposal of Shares in the Fund, after a minimum period of two years, to 10%. BATR is greater in amount, and faster to accrue, than normal taper relief.

If the Fund is a holding company of a trading group, then the Shares should satisfy the conditions for BATR. If, as well as trading, a company also has non-trading activities, its "trading" status could be prejudiced. The Inland Revenue in Tax Bulletin Number 53 has said that a trading company is one which "exists wholly for the purpose of carrying on one or more trades or a company that would fall within that definition apart from any activities which are not regarded as having a substantial effect on the trading activities". Non-trading activity will be substantial where it is 20% or more of the income, asset base, costs incurred and time spent by employees. The relevant trading status could therefore be prejudiced if non-trading activities, for example the holding of unsold properties that are let, or the making of investments for the purposes of the Capital Protected Shares, exceeds 20%.

The Directors of the Fund have indicated that it is the intention of the Fund to be engaged in trading activities, however, the Fund does not make any representation as to whether the investment will be, or will continue to be, one in respect of which BATR will be available.

Non-UK Shareholders

Shareholders who are not resident or ordinarily resident in the United Kingdom and do not carry on a trade, profession or vocation through a branch or agency in the United Kingdom with which the Shares are connected will not normally be liable to United Kingdom taxation on capital gains arising on the sale or other disposal of their Shares.

Individual Savings Accounts and Personal Equity Plans

Shares in the Fund will not be eligible to be held in the stocks and shares component of an ISA or an existing PEP.

Self-invested Personal Pension Schemes ("SIPPs")

The Personal Pension Scheme (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001 provide that investments which may be held directly or indirectly for the purposes of a SIPP include shares which are dealt in on AIM.

Jersey taxation

The Fund

The Fund is registered in Jersey as an exempt company and is, therefore, not liable to Jersey income tax on profits derived outside Jersey. Confirmation has been obtained from the Comptroller of Income Tax in Jersey that, by concession, the Fund will only be liable to tax in Jersey in respect of income arising in Jersey other than bank interest income. It is not anticipated that any income other than bank interest income will arise in Jersey. A fee (currently £600 per annum) is payable to the Jersey Comptroller of Income Tax in respect of the Fund's exempt status.

On 3 June 2003, the EU Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation. Jersey is not a member of the European Union, however the Finance & Economics Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by the start of 2008 with a general zero rate of corporate tax.

Shareholders

There is no capital gains tax, estate duty or inheritance tax in Jersey.

There is a statutory requirement for the Fund to deduct income tax from dividends paid to Jersey residents and to account for such income tax deducted to the Comptroller of Income Tax. Furthermore the fund is required to make a return to the Comptroller, on request, of the names, addresses and shareholdings of Jersey resident Shareholders.

No duties are payable on the issue or disposal of the Shares on the winding up of the Fund. In the event of the death of a sole holder of Shares probate duty at a rate of up to 0.75% of the value of the Shares at the time of death is levied in Jersey on grants of probate and letters of administration, save where the condition for small estates exemption (not exceeding £10,000) are satisfied.

The attention of investors who are resident in Jersey is drawn to the provisions of Article 134A of the Income Tax (Jersey) Law 1961 which may, in certain circumstances, render such a resident liable to income tax on the undistributable income of the Fund.

Bulgarian taxation

The real estate tax is an annual tax and amounts to 0.15% on the assessed value of the property. The tax base for legal entities is the real estate's cost as per the balance sheet of the company (the real estate's net book value plus the accumulated depreciation costs). The real estate tax applies to land (but not to agricultural land and forests) and buildings. The tax is payable regardless of whether the immovable property is used or not. The tax liability is on the owners of the immovable property.

A fee is due by the owners of real estate. The amount of the fee is determined by the municipality per the location of the real estate. The basis for the fee calculation for legal entities is identical to the basis for real estate tax calculation.

A 2% state tax is paid upon the acquisition of immovable property based on its value.

For the transfer of property where notary certification is necessary, a notary transfer fee is due. It is defined in a regressive scale depending on the value of the transferred property. The fee cannot exceed Lev 3,000. In addition a notary fee of 0.1% of the value of the property is payable on registration.

VAT on property transactions and on development costs would normally be charged at the Bulgarian VAT rate of 20%. The transfer of land (but not buildings) is VAT exempt.

PART VII

FINANCIAL MODEL OUTPUTS AND ASSUMPTIONS

The Manager has developed a financial model that uses the assumptions set out on the following pages to replicate certain key aspects of the Fund.

IMPORTANT NOTE:

POTENTIAL INVESTORS SHOULD NOTE THAT THE HYPOTHETICAL MODELLED RETURNS SHOWN IN THIS PART VII ARE FOR ILLUSTRATIVE PURPOSES ONLY, ARE BASED UPON THE ASSUMPTIONS WHICH MAY NOT BE ACHIEVED AND SHOULD NOT BE TAKEN AS A PREDICTION OF THE FUND'S FUTURE PERFORMANCE. THE HYPOTHETICAL SALE PRICES DO NOT ATTEMPT TO FORESEE ALL POSSIBLE MARKET SCENARIOS OR REPRESENT A PREDICTION OF HOW THE BULGARIAN PROPERTY MARKET WILL PERFORM. POTENTIAL INVESTORS SHOULD MAKE THEIR OWN ASSESSMENT OF HOW THE MARKET MIGHT PERFORM IN THE FUTURE. THERE ARE CIRCUMSTANCES IN WHICH THE FUND'S RETURNS WILL BE NEGATIVE. THE MODEL ASSUMES THAT THE THREE SITES IN RESPECT OF WHICH THE INITIAL PROPERTY OPTIONS HAVE BEEN GRANTED ARE DEVELOPED AS INTENDED. THERE ARE RISKS ASSOCIATED WITH ANY DEVELOPMENT PROJECT WHICH MAY MEAN THAT A DEVELOPMENT IS DELAYED OR PREVENTED. YOUR ATTENTION IS DRAWN TO THE RISK FACTORS IN PART IV OF THIS DOCUMENT, AND IN PARTICULAR THE PARAGRAPHS ENTITLED "RISKS OF PROPERTY OWNERSHIP", "DEVELOPMENT RISK" AND "SUBSTANTIAL LOSS". THE MODEL OUTPUTS, AS SET OUT BELOW, ARE ILLUSTRATIVE ONLY AND DO NOT PREDICT FUTURE PERFORMANCE.

Model outputs for Sterling Shares and Units

		Property Sale Price €/m²				
		500	800	1000	1200	1500
All Sterling Units	Total Return . .	13%	69%	99%	131%	190%
	IRR	1.8%	8.9%	12.2%	15.6%	20.9%
50% Sterling Units	Total Return . .	−7%	181%	280%	392%	589%
50% Property Shares	IRR	−2.0%	20.2%	26.7%	32.6%	41.0%
All Property Shares	Total Return . .	−26%	292%	462%	652%	988%
	IRR	−5.9%	31.4%	41.2%	49.7%	61.2%

£100,000 Invested Returns:					
All Sterling Units	£113,018	£168,778	£198,636	£231,412	£290,080
50/50 Sterling Units and Property Shares	£93,352	£280,584	£380,100	£491,515	£688,994
All Property Shares	£73,687	£392,390	£561,564	£751,618	£1,087,909

Assumptions

Build price	400€/m²
Purchase price	480€/m²
Fund receives	96€/m²
plus	30% above that
Average size of a unit	70m²
Deposit	20%
Transaction costs of gross amount	
On purchase	1%
On sale	5%
Life of Capital Protection	7 years
Percentage of Units in Capital Protection before costs	80.5%
Launch Costs	4%
Initial commission to intermediaries	5%
Admin fee (£m) pa	0.16
Annual management fee on Property Subsidiary	2%
Annual management fee on Units (allocated to each subsidiary pro-rata to funds raised)	0.39%

Performance Fee	
On first 100% of Property Subsidiary over benchmark	20%
On profit over that	30%
Funds raised £m (all Units)	50
Funds raised £m (all Property)	50
Benchmark	10%
Capital gains tax	15%
Founders shares (% of total funds raised)	5%
Exchange Rates	
USD|GBP	0.532
USD|EUR	0.760
EUR|GBP	0.700

1. The Fund receives £50 million subscribed for (a) 100% Units, (b) 100% Property Shares or (c) 50% Units and 50% Property Shares at launch. The total costs of the Offer are 4% plus 5% initial commission paid to intermediaries resulting in net proceeds of £45.5 million.
2. The net proceeds of the Offer are allocated to the Capital Protected Subsidiary and the Property Subsidiary in proportion to the funds raised by each of the Share classes.
3. The proceeds in the Capital Protected Subsidiary are invested for 7 years.
4. The proceeds received by the Property Subsidiary are invested within the first 12 months of the Fund's life.
5. After 2 years the Fund sells all the properties purchased and then reinvests all net profits (at the original purchase price) over the following 12 months for a further 3 years; after which the properties are sold (at the original sale price(s) i.e. no growth assumed) and the Property Subsidiary is liquidated.
6. The Fund pays an annual management fee of 2% on the cash subscribed for Property Shares. Ongoing running costs are assumed to be £160,000 per annum. The Fund also pays a performance fee equal to 20% of any out-performance by the Fund's Property Portfolio over a compound annual growth rate ("CAGR") of 10% on the first 100% over this and 30% of any gains generated in excess of this amount.
7. The Fund purchases units at €480/m² by paying a 20% deposit. Transaction costs are 1% of the gross purchase price and 5% of the gross consideration on sale.
8. The Fund receives the first 20% of any profit above €480/m² and 30% of all profit above that.

Model outputs for Dollar Shares and Units

		Property Sale Price €/m²				
		500	800	1000	1200	1500
All Dollar Units	Total Return	−1%	61%	94%	131%	196%
	IRR	−0.2%	10.0%	14.2%	18.2%	24.2%
50% Dollar Units and 50% Dollar Property Shares	Total Return	−14%	175%	276%	388%	588%
	IRR	−3.1%	20.6%	27.6%	33.8%	42.6%
All Dollar Property Shares	Total Return	−26%	289%	457%	646%	979%
	IRR	−5.9%	31.2%	41.0%	49.5%	60.9%

$100,000 Invested Returns:

All Dollar Units	$ 99,176	$ 160,964	$ 194,228	$ 230,723	$ 296,125
50/50 Dollar Units and Dollar Property Shares	$ 86,405	$ 275,090	$ 375,626	$ 488,140	$ 687,672
All Dollar Property Shares	$ 73,635	$ 389,216	$ 557,024	$ 745,556	$1,079,219

Assumptions

Build price	400€/m²
Purchase price	480€/m²
Fund receives	96€/m²
plus	30% above that
Average size of a unit	70m²
Deposit	20%
Transaction costs of gross amount	
On purchase	1%
On sale	5%
Life of Capital Protection	5 years
Percentage of Unit in Capital Protection before costs	78%
Launch Costs	4%
Initial commission to intermediaries	5%
Admin fee ($m) pa	0.302
Annual management fee on Property Subsidiary	2%
Annual management fee on Units (allocated to each subsidiary pro-rata to funds raised)	0.44%

Performance Fee	
On first 100% of Property Subsidiary over benchmark	20%
On profit over that	30%
Funds raised $m (all Units)	50
Funds raised $m (all Property)	50
Benchmark	10%
Capital gains tax	15%
Founders shares (% of total funds raised)	5%
Exchange Rates	
USD|GBP	0.532
USD|EUR	0.760
EUR|GBP	0.700

1. The Fund receives $50 million subscribed for (a) 100% Units, (b) 100% Property Shares or (c) 50% Units and 50% Property Shares at launch. The total costs of the Offer are 4% plus 5% initial commission paid to intermediaries resulting in net proceeds of $45.5 million.
2. The net proceeds of the Offer are allocated to the Capital Protected Subsidiary and the Property Subsidiary in proportion to the funds raised by each of the Share classes.
3. The proceeds in the Capital Protected Subsidiary are invested for 5 years.
4. The proceeds received by the Property Subsidiary are invested within the first 12 months of the Fund's life.
5. After 2 years the Fund sells all the properties purchased and then reinvests all net profits (at the original purchase price) over the following 12 months for a further 3 years; after which the properties are sold (at the original sale price(s) i.e. no growth assumed) and the Property Subsidiary is liquidated.
6. The Fund pays an annual management fee of 2% on the cash subscribed for Property. Ongoing running costs are assumed to be $302,000 per annum. The Fund also pays a performance fee equal to 20% of any out-performance by the Fund's Property Portfolio over a CAGR of 10% on the first 100% over this and 30% of any gains generated in excess of this amount.
7. The Fund purchases units at €480/m² by paying a 20% deposit. Transaction costs are 1% of the gross purchase price and 5% of the gross consideration on sale.
8. The Fund receives the first 20% of any profit above €480/m² and 30% of all profit above that.

Model outputs for Euro Shares and Units

		Property Sale Price €/m²				
		500	800	1000	1200	1500
All Euro Units	Total Return	7%	40%	57%	77%	111%
	IRR	1.0%	5.4%	7.5%	9.8%	13.6%
50% Euro Units and 50% Euro Property Shares	Total Return	−9%	171%	267%	374%	565%
	IRR	−2.3%	18.7%	24.8%	30.2%	37.8%
All Euro Property Shares	Total Return	−25%	303%	477%	672%	1018%
	IRR	−5.7%	32.1%	42.0%	50.5%	62.1%

€100,000 Invested Returns:

All Euro Units	€107,306	€139,792	€157,348	€176,674	€211,346
50/50 Euro Units and Euro Property Shares	€90,922	€271,233	€367,037	€474,483	€664,833
All Euro Property Shares	€74,538	€402,674	€576,726	€772,291	€1,118,320

Assumptions

Build price	400€/m²
Purchase price	480€/m²
Fund receives	96€/m²
plus	30% above that
Average size of a unit	70m²
Deposit	20%
Transaction costs of gross amount	
On purchase	1%
On sale	5%
Life of Capital Protection	7 years
Percentage of Unit in Capital Protection before costs	88.5%
Launch Costs	4%
Initial commission to intermediaries	3%
Admin fee (€m) pa	0.23
Annual management fee on Property Subsidiary	2%
Annual management fee on Unit (allocated to each subsidiary pro-rata to funds raised)	0.23%

Performance Fee	
On first 100% of Property Subsidiary over benchmark	20%
On profit over that	30%
Funds raised €m (all Units)	50
Funds raised €m (all Property)	50
Benchmark	10%
Capital gains tax	15%
Founders shares (% of total funds raised)	5%
Exchange Rates	
USD|GBP	0.532
USD|EUR	0.760
EUR|GBP	0.700

1. The Fund receives €50 million subscribed for (a) 100% Units, (b) 100% Property Shares or (c) 50% Units and 50% Property Shares at launch. The total costs of the Offer are 4% plus 3% initial commission paid to intermediaries resulting in net proceeds of €46.5 million.
2. The net proceeds of the Offer are allocated to the Capital Protected Subsidiary and the Property Subsidiary in proportion to the funds raised by each of the Share classes.
3. The proceeds in the Capital Protected Subsidiary are invested for 7 years.
4. The proceeds received by the Property Subsidiary are invested within the first 12 months of the Fund's life.
5. After 2 years the Fund sells all the properties purchased and then reinvests all net profits (at the original purchase price) over the following 12 months for a further 3 years; after which the properties are sold (at the original sale price(s) i.e. no growth assumed) and the Property Subsidiary is liquidated.
6. The Fund pays an annual management fee of 2% on the cash subscribed for Property. Ongoing running costs are assumed to be €230,000 per annum. The Fund also pays a performance fee equal to 20% of any out-performance by the Fund's Property Portfolio over a CAGR of 10% on the first 100% over this and 30% of any gains generated in excess of this amount.
7. The Fund purchases units at €480/m² by paying a 20% deposit. Transaction costs are 1% of the gross purchase price and 5% of the gross consideration on sale.
8. The Fund receives the first 20% of any profit above €480/m² and 30% of all profit above that.

PART VIII

GENERAL INFORMATION

1 THE FUND

1.1 The Fund was incorporated with limited liability in Jersey as a closed-ended umbrella investment company under the Companies (Jersey) Law 1991 with registered number 89392 on 27 January 2005.

1.2 In accordance with the Law, the Memorandum of Association of the Fund does not contain an objects clause. The Fund intends to carry on the business of an investment holding company.

1.3 The Fund's registered office and its principal place of business are in Jersey and are located at BNP House, Anley Street, St Helier JE2 3QE.

1.4 Save for its entry into the material contracts summarised in paragraph 6 of this Part VIII and certain non-material contracts, since its incorporation, the Fund has not carried on business nor incurred borrowings.

2 SHARE CAPITAL

2.1 The Company is a no par value company and is authorised to issue up to 10 Founders Shares and an unlimited number of participating Shares. The Founders Shares are not redeemable and in accordance with the Articles of Association are owned by the Manager or as otherwise determined by the Directors. The Founders Shares do not carry any rights to dividends or profits and on liquidation they will rank behind Shares for the return of the amount paid up on each of them. Founders Shares carry the right to receive notice of and attend general meetings, but carry no right to vote thereat unless there are no participating Shares in issue.

2.2 At incorporation, two Founders Shares were subscribed by the subscribers to the Memorandum of Association and have been transferred to the Manager.

2.3 The liability of Shareholders is limited to the amount payable in respect of Shares held.

2.4 The Shares carry the right to vote at general meetings, dividends, and the surplus assets of the Fund on a winding-up.

2.5 Save pursuant to the Offer and for the subscription of the two Shares referred to above, since the date of incorporation no share or loan capital of the Fund has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commission, discounts, brokerages or other special terms have been granted by the Fund in connection with the issue of any such capital.

2.6 No share or loan capital of the Fund is under option or has been agreed, conditionally or unconditionally, to be put under option.

2.7 The Articles authorise the Directors to allot an unlimited number of participating Shares without pre-emption rights applying for existing Shareholders.

2.8 A special resolution of the Fund, expressed to take effect on completion of the Offer, has been passed granting the Fund authority to make market purchases of Shares following the close of the Offer.

2.9 On the assumption that only Sterling Property Shares are issued under the Offer at an Offer Price of 19.5 pence, and that the Offer is fully subscribed, the Fund will on Admission have 256 million Sterling Property Shares and 2 Founders Shares in issue and share capital of £49,920,002.

2.10 As of the date of this document, the Fund has no listed or unlisted securities not representing share capital.

3 DIRECTORS' AND OTHER INTERESTS

3.1 The maximum amount of remuneration payable to the Directors permitted under the Articles is £100,000 per annum.

3.2 It is estimated that the aggregate emoluments (including benefits in kind and pension contributions (of which none are to be made)) of the Directors for the period ending 31 December 2005 will amount to no more than £50,000.

3.3 There are no existing or proposed service contracts between any of the Directors and the Fund. There are no contracts entered into by the Fund in which the Directors have a material interest.

3.4 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Fund.

3.5 No Director has any interest in any transactions which are or were unusual in their nature or significant to the business of the Fund and which have been effected by the Fund since incorporation or have been effected by the Fund since incorporation and remain in any way outstanding or unperformed.

3.6 No Director (nor any member of a Director's family) has had a related financial product (as defined in the AIM Rules) referenced to Shares.

3.7 Melville Trimble, James Ogilvy, Roger King and Roger Maddock have each opted to subscribe for £10,000 of Sterling Property Shares. In accordance with the lock-in arrangements contained in the AIM Rules, the directors have agreed not to dispose of their securities for a period of one year from the date of Admission. Save as set out in this paragraph 3.7, no Director has any interest in the share capital of the Fund nor has any person connected with any Director (so far as is known, or who could with reasonable diligence be ascertained by, each Director) an interest in the share capital of the Fund or with any options in respect of such capital.

3.8 The Fund is not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control of the Fund.

3.9 The Fund is not aware of any person holding directly or indirectly more than 3% of the Fund's issued share capital (excluding Founders Shares) or any person who will hold, directly or indirectly, more than 3% of the Fund's issued share capital after Admission.

3.10 The Fund will purchase directors and officers liability insurance for the benefit of the Directors.

3.11 No Director has any unspent convictions relating to indictable offences, has been bankrupt or has made, or been the subject of, any individual voluntary arrangement.

3.12 None of the Directors has been a director of any company at the time of or within twelve months preceding the date of its receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors. None of the Directors has been a partner of any partnership at the time of or within twelve months preceding the date of its compulsory liquidation, administration or partnership voluntary arrangement or the receivership of any assets of such partnership nor have any of their assets been the subject of receivership.

3.13 None of the Directors has been publicly criticised by any statutory or regulatory authority or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

3.14 David Keep is a director of the Manager. He is also a director of the Administrator.

3.15 Andrew Gardiner is a director of the Manager and holds one-third of the Manager's issued share capital.

3.16 Thomas Pridmore and Andrew Mitchell each hold one-third of the Manager's issued share capital.

3.17 The directorships held by each of the Directors over the five years preceding the date of this document and the partnerships in which they have been partners in the five years preceding the date of this document are as follows:

Director	Current directorships	Past directorships
Melville Trimble	Invesco Income Growth Trust plc Aisholt Consultancy Limited	Herald Investment Management Limited HIML Jersey Limited Herald Jersey Ventures Limited Merrill Lynch International Limited India Fund (Mauritius) Limited
Evgeni Chachev	None	None
Roger King	A E Noel Limited Point Investments Limited Signal Investments 2000 Limited Dorby Dan Consultants Limited HLB International Limited Almacir Limited Guidon Limited Berenice Limited Germander Properties Limited Unicap Limited Winterwood Investments Limited Brentford Wharf Limited Future Brands Limited Bridges Properties Limited Norbury Properties Limited Cannoncourt Limited Opportunity Holdings Limited Jolyon Investments Limited Marsden Holdings Limited Yarley Investments Limited Merino Estates STD Company Kirkstone Limited Champany Holdings Limited Siretam Limited	Whitetiger Limited—dissolved 13.11.01 Carambola Limited Golf Walk Estates Limited Maskalls Limited Mesio Investments Limited Nordia Holdings Ltd Scarlett Holdings Ltd Starr Inc—Transferred to Dilip Soni, sole dir 2/8/01 AIB Trust Company (Isle of Man) Limited Secunda Management Services Limited Arc Trading Investments Ltd. Port Meadow Co Ltd.—transfer out 09/01/03 Starr Offshore Limited—Transfer to Jackson Fox Aug 2001 Alberdale (Jersey) Limited Eurafrik S.A.—struck off Finistair Properties Limited Tagus International Inc. Beauchamps Property Holdings Limited Les Comptoirs de la Pierre Ltd Fernbury Properties Limited Rodata Investments Limited Springwood Holdings Limited Electrochemical Technologies Limited—dissolved 26/02/2002 K Marketing Services Limited VGC Limited Competa Properties Limited—transfer to Abacus Craignure Limited Crossaig Limited Drakensberg Limited Harare Limited Henlow Ltd

Director	Current directorships	Past directorships
		Hout Limited Jordanian Limited Kelham Limited Komodo Properties Ltd. Closed Larling Limited Montreal Limited Nairobi Limited Omani Limited Paris Limited Ranburg Limited Warsaw Limited Shevat Limited I & M Smith (Private) Limited should be TP Lakeland Projects Limited—tfr to Capita Trust March 2002 Malvern Invest Assoc Ltd Mianda Limited—admin tfr'd to Fairway Trust Limited Milford Invests Group Limited Alazan Limited Algiers Limited Amaretto Limited Botswana Limited Watergate Limited Sun Gold Ghana Limited AV Engineering Services Limited Mani Limited Glueck Inc Westvlees Limited Advance Broadcast Communications Limited—Diss 28/02/01 Clearminster Property Holdings Limited Eagle Green Limited Hinxston Limited dissolved 10/4/2001 Packing Properties Limited dissolved on 23.2.2001 Dilston Holdings Limited—Trf out 4/5/2001 Castlefinch Limited Progressive Holdings Limited Alectocom Limited—Dissolved 7/8/2001 Colliston House (Bournemouth) Limited Greenland (Jersey) Limited STRUCK OFF 27/07/2001 Nino Holdings Limited MVM Trading Limited—Struck off 11 Oct 2001

Director	Current directorships	Past directorships
		Communications Concept Limited—Struck off 11/10/2001 Dolphin Securities Limited—14/8/2001 to be struck off Lib Will Ern Investments Limited Shadowfax Limited Gas Turbine Engineering Overseas Limited Abandin Investments Limited Abney Limited Sauterne Properties Limited Indice Company Limited Barista Holdings Limited—Struck off 11 Oct 2001 Kei Holdings Limited Milvus Limited Pyramids 2000 Limited—struck off 12/10/2001 Tashin Holdings Limited struck off 12.10.2001 Winster Limited struck off 12.10.2001 Xenox Trading Limited—struck off 12/10/2001 Home Decoration & Furnishing Limited AIBWorthytrust Corporate Limited Central European Strategic Mgt Serv Ltd—TFR out 11/01 New Direction Limited Starfish Holdings Limited—Tfr to Fairway Trust Ltd Motospur Limited Floriani Limited—wound up 8/11/2001 (BUD memo) AIB Fund Administrators Limited Insight Holdings Ltd Transferred Barclays 30/11/01 Majyng Alpha Limited Summerwood Investments Limited Arundel Overseas Limited Ashgrove Holding Limited—Dissolved 28/2/02 Azrep Limited Bnidr Limited—tfr UKB Trustees Gsy Castellane Properties Limited Coulter Holdings Limited I & M Smith Zimbabwe Limited Sloane Ranger Limited Valonia Investments Limited (in voluntary liquidation)

Director	Current directorships	Past directorships
		Winterwood Investments Limited Adobe Properties Limited AIB Trust Company (Jersey) Limited Worthy Trust Company Limited Worthy Secretaties Limited Worthy Securities Limited AIBTC Nominees Limited Worthy Nominees Limited Aspero Limited—struck off 10/10/2002 Athla Limited Automated Software Consultants Limited BE Equities Limited Biscordint Limited Blue Orchid Limited Brockham Limited—dissolved 2002 Bunbury Holdings Limited Buzzard Holdings Limited Cedarberg Investments Limited Cristallo Limited Crowberry Company Limited Elfast Holdings Limited Elibasich Limited Fifth Maple Holdings Limited Ghaf Holdings Limited Ghana International Manganese Corporation Ltd Glencorse Investments Limited Hafouch Securities Limited Hazelwood Limited Heywood Investments Limited—closed I & M Smith (Jersey) Limited—dissolved 9.2.04 Imprint Limited Monita Limited Montrachat Investments Limited Najlah Limited—trf's to AUB Trustees—new administrators Old Mill House Limited Rachel Securities Limited Renewal Consulting Limited Rowena Investments Limited S & G Topware Limited—dissolved 26.03.02 Tchaikoff Holdings Limited—closing Tonguard Limited Trafford Holdings Limited

Director	Current directorships	Past directorships
		Worthy Corporate Services (Guernsey) Limited Yorker Properties Limited Jamie Holdings Ltd. Karook Limited dissolved 11.1.2002 Theatrical Estates Limited Coralle Estates Limited—closed 21/05/02 Coronation Syndicate Limited—closed 21/05/02 Fort Valley Limited—closed 21/05/02 Fountain Valley Limited Fragrance Limited—Closed 21/05/02 Heartfields Limited—closed 21/05/02 Namibia Limited—closed 21/05/02 Panda Limited—closed 21/05/02 Rich Valley Limited Stony Brooke Limited—closed 21/05/02 Blossom Holdings Limited Day Dawn Limited Harrison International Holdings Limited Nightingale Investments Ltd. Olderon Investments Limited—dissolved Mar 02 Pacific Century Investment Limited Phaeton Limited Reddington Developments Ltd Wild Horizons Limited Petersfield Limited Lamouette Holdings Limited—Dissolved 15/02/2002 Mediamed Consulting Limited Cumberland Investments Ltd—dissolved 27.02.02 Grantham Holdings Limited Technico Consult International Ltd struck off Oct 2001 Patros Developments Limited Riverslane Limited Couderq & Kubas Limited Struck off 11/10/01 Dhari Limited Hayat Limited Jonkerrs Limited Sorella Productions Limited Spectrum Trading Limited

Director	Current directorships	Past directorships
		Mandolin Investments Limited Mantaran Holdings Limited Maxus Jersey Limited Metzo Properties Limited Millhouse Investments Limited—struck off 12/10/2001 Northern Hardwoods (Ghana) Limited—Transferred out Ortini Limited Tarob Consultants Limited Wichmann Intermedia Limited struck off 12.10.2001 Friarsmead Limited tfrd to Fairway Trust 25.3.2 Richter Investments Limited Rodam Resources Limited Roseberry Investments Limited Sandstone Properties Limited Sarissa Holdings Limited Stone Limited Tapitex AG Luzern Limited Thehad Holdings Limited TRJ Finans Limited Unique Distributing Limited Wainscot Properties Limited Kilmeny Holdings Limited Minium Limited Sports Management & Advertising Limited Bakran Investments Limited Karillion Holdings Limited Sackville Investments Limited Tribeca Holdings Limited Leighton Limited Manzita Limited NMB Securities Investments Limited Pueblo Blanco Limited—closed 21/05/02 Islewind Limited Airhotels Limited Arzi Investment Company Limited Cadco Limited Camile Investments Ltd Coastal View Limited Europeenne Association D Ingenierie S.A.R.L. Kendel Holdings Limited M & J Holdings Limited Marlstone Limited Melandra Limited Penchant Properties Limited Prosail Limited Ribling Holdings S.A.R.L.

Director	Current directorships	Past directorships
		Zero Limited
		Izzard Limited
		Azure Holdings Limited—RCM private client
		C A Private Trust Co Limited
		Cleralt Limited
		Ixworth Holdings Limited—dissolved 10/10/02
		Parapet Properties Limited
		Olbia Investments Limited
		Patdel Limited
		Seabay Limited
		Spyderline Limited
		Tamarind Investments Limited
		Saleh Al Roumi Family Investments Limited
		Bauer Investment Group Limited
		Wyfields Limited
		Merino Estates STD Company
		Codif Investments Limited
		Dixcart Holdings Limited—dissolved 20/2/2003
		Red Eagle Limited
		Brightsword Investments Limited (in voluntary liquidation)
		Crossbow Investments Limited (in voluntary liquidation)
		Almacir Limited
		Berenice Limited
		Brentford Wharf Limited
		Bridges Properties Limited
		Cannoncourt Limited
		Champany Holdings Limited
		Future Brands Limited
		Germander Properties Limited
		Guidon Limited
		J.F. Nominees Limited
		JF Worthytrust Limited
		Jolyon Investments Limited
		Kirkstone Limited
		Marsden Holdings Limited
		Norbury Investments Limited
		Opportunity Holdings Limited
		Professional Consultancy Services Limited
		Siretam Limited
		Unicap Ltd.
		Virtue Trustees Limited
		Yarley Investments Limited

Director	Current directorships	Past directorships
Roger Charles Maddock	AIB Bank (CI) Limited AIB Fund Administrators Limited Caribbean Leisure Marketing Limited Leisureshare International Limited Castlechart Limited Auk Limited York Yard Limited Xpress Limited Azure Holdings Limited Arvimex Inc Greyrock Holdings Limited Tretawn Limited Blue Suede Limited Euro PE General Partner Limited The Off-Plan Fund Limited	Aaronite Limited Aaronmac Limited Abandin Investments Limited Abney Limited Abydos Limited Adobe Properties Limited Advance Broadcast Communications Ltd AIBWorthytrust Corporate Services Limited Airhotels Limited Alazan Ltd Alcoy Limited Alectocom Limited Algiers Limited Almacir Limited Amaretto Ltd Anlyn Real Estate Limited APNL Ltd Arc Trading Investments Ltd Argentine Pipeline Corporation Limited Armoy Holdings Limited Arundel Overseas Ltd Arzi Investment Company Ltd Ashgrove Holding Ltd Aspero Limited Athla Limited Atlanta Estates Ltd Atwill Investments Ltd Aurea Developments Ltd Automated Software Consultants Ltd AV Engineering Services Ltd Avondale Properties Ltd Azrep Limited Bakran Investments Ltd Barista Holdings Limited BE Equities Limited Bealsmill Limited Berenice Limited Biscordint Limited Blandina Promotions Ltd Blossom Holdings Limited Blue Orchid Limited Bnidr Limited Booth Investments Ltd Botswana Ltd Brentford Wharf Limited Bretwell Ltd Brightsword Investments Ltd Brockham Limited Bunbury Holdings Limited Burgos Limited Buzzard Holdings Ltd CA Private Trust Company Ltd Cadco Limited

Director	Current directorships	Past directorships
		Camile Investments Ltd Cannoncourt Limited (Jersey) Limited Carodave Investments Limited Castellane Properties Limited Castlefinch Limited Cedarberg Investments Limited Central European Strategy Management Ltd Champany Holdings Limited Chord Services Ltd Clearminster Nominees No 1 Limited Clearminster Nominees No 2 Limited Clearminster Property Holdings Limited Cleralt Limited Coastal View Limited Codif Investments Limited Colliston House Bournemouth Limited Communications Concept Ltd Competa Properties Limited Consolidated Real Estate Management Limited Cotton Limited Couderq & Kubas Limited Coulter Holdings Limited Court Brook Asset Management Limited Craignure Limited Cristallo Limited Crossaig Ltd Crossbow Investments Limited Crowberry Company Limited Cumberland Investments Ltd Day Dawn Limited Desmas Commerce & Investment Ltd Dhari Limited Dilston Holdings Limited Dimatha Limited Dixcart Holdings Limited Dolphin Securities Limited Drakensberg Limited Eagle Green Limited Economic Consultants (Middle East) Ltd Edfu Limited E-Exchange Limited Ekibastus Power Development Limited Elfast Holdings Limited Elibasich Limited Esna Limited

Director	Current directorships	Past directorships
		Estates International Ltd Europeenne Association D Ingenierie Sarl Eve Gold (Overseas) Limited Evens Limited Faial Limited Fassomat SA Fender Limited Fifth Maple Holdings Limited Floriani Limited Fourglen Limited Franche Limited Friarsmead Limited Future Brands Limited Gabes Limited Galmeter Limited Gas Turbine Engineering Overseas Ltd Gattaca Limited Global Energy Advisory and Research Limited Generic Systems International Limited Germander Properties Limited GFBI Limited GFF Limited GFG Limited Ghaf Holdings Limited Ghana International Manganese Corporation Ltd Glencorse Investments Limited Grantham Holdings Limited Greenginger Holdings Ltd Guidon Limited Hafouch Securities Limited Hanover Company Limited Harare Limited Harrison International Holdings Ltd Hassell Limited Hawksley Holdings Limited Hayat Limited Hazelwood Limited Henlow Ltd Heywood Investments Ltd High Mark Limited Highlands Limited Hinxston Limited Hollywell Spring Limited Home Decoration & Furnishing Limited Hout Limited I & M Smith (Jersey) Limited I & M Smith (Private) Ltd

Director	Current directorships	Past directorships
		I & M Smith Zimbabwe Limited Imprint Limited Independent Power International Limited Indice Company Limited Insight Holdings Ltd Irunn Limited Islewind Limited Ixworth Holdings Limited Izzard Limited Jamie Holdings Ltd Janna Investments Ltd Janvrin Limited Jedi Limited JF Nominees Limited JF Worthytrust Limited Jolyon Investments Limited Jonkerrs Limited Jordanian Limited Juniper Investments Ltd K Marketing Services Ltd Kadreli Investments Ltd Karillion Holdings Limited Karook Limited Kars Limited Kei Holdings Limited Kelham Limited Kendel Holdings Limited Kilmeny Holdings Limited Kirkstone Limited Kol Limited Kommbo Limited Lakeland Projects Limited Lamouette Holdings Limited Larling Limited Le Marais Limited Leighton Limited Leritral Limited Les Comptoirs de la Pierre Ltd Linseed Investments Limited LRS Holdings Limited M & J Holdings Limited Majyng Alpha Limited Malian Holdings Limited Malvern Investment Associates Ltd Mandolin Investments Limited Mani Limited Mantaran Holdings Limited Mantis Investments Limited Manzita Limited Marlstone Limited Marsden Holdings Limited Marvel International Ltd

Director	Current directorships	Past directorships
		Marvel Overseas Investments Limited Maxus Jersey Ltd Mediamed Consulting Limited Melandra Limited Melecon A G Merino Estates STD Company Mesio Investments Ltd Metzo Properties Limited Mianda Limited Milford Investment Group Ltd Millhouse Investments Ltd Milvus Limited Minium Limited Monita Limited Montrachat Investments Limited Montreal Limited Moonline Limited Motospur Limited Muirdrum Limited Mulkern Limited MVM Trading Limited Nabek Limited Nairobi Limited Najlah Limited New Direction Limited Nightingale Investments Ltd Nino Holdings Limited NMB Securities Investme Ltd Norbury Investments Limited Northern Hardwoods Ltd Obssan Investments Ltd Odin Group Limited Oilfield Development International Ltd Olbia Investments Limited Old Mill House Limited Olderon Investments Limited Olvine Limited Omani Limited Ortini Limited Pacific Century Investment Ltd Packing Properties Limited Padopar Limited Parapet Properties Limited Paris Limited Patdel Limited Patros Developments Limited Peel Limited Penchant Properties Limited Petersfield Limited Petit Company Limited Phaeton Limited Pharmet Limited

Director	Current directorships	Past directorships
		Pindaric Investments Ltd
		Plantagenet Investments Ltd
		Port Meadow Co Ltd
		Professional Consultancy Services Limited
		Progressive Holdings Ltd
		Prosail Limited
		Pyramids 2000 Limited
		Pyrotect Holdings Limited
		Quondam Investments Limited
		Rachel Securities Limited
		Rael Holdings Limited
		Raha Investments Limited
		Ranburg Limited
		Rankin Limited
		Red Eagle Limited
		Redgrove Trading Limited
		Reefbound Investments Ltd
		Remoras Limited
		Renewal Consulting Ltd
		Reus Limited
		Rhama Limited
		Ribling Holdings SARL
		Richter Investments Ltd
		Rio International Limited
		Riverslane Limited
		Rodam Resources Limited
		Rodata Investments Ltd
		Rorke Investment Holdings
		Roseberry Investments Ltd
		Roundel Limited
		Rowena Investments Ltd
		Rumo Investments Limited
		S & G Topware Ltd
		Sabre Limited
		Sackville Investments Ltd
		Saguaro Holdings Limited
		Sakkara Limited
		Saleh Al Roumi Family Invs Ltd
		Samba Limited
		Sandene Corporation Limited
		Sandstone Properties Limited
		Sarissa Holdings Limited
		Sauterne Properties Limited
		Seabay Limited
		Seamill Limited
		Secteur Holdings Limited
		Secunda Europa Limited
		Secunda Management Limited
		Shadowfax Limited
		Shevat Limited
		Shortland Properties Ltd
		Siretam Limited
		Sloane Ranger Limited
		Solid Auto (Overseas) Ltd
		Sorella Productions Limited

Director	Current directorships	Past directorships
		Sorrento Limited Spectrum Trading Ltd Sports Management & Advisors Limited Spyderline Limited Stalybridge Limited Starfish Holdings Limited Starwood Investments Ltd Stockland Industries Limited Stone Limited Summerwood Investments Limited Sun Gold Ghana Limited Talwin Holdings Limited Tamarind Investments Limited Tapitex AG Luzern Limited Tarob Consultants Limited Tarrent European Cons Ltd Tashin Holdings Limited Technico Consult International Limited Tefnut Limited Telbark Limited Tete Limited Thanos Limited Theatrical Estates Limited Thehad Holdings Limited Tonguard Limited Torver Investments Limited Trafford Holdings Limited Tribeca Holdings Limited TRJ Finans Ltd Tula Limited Two Caps Limited TYR Limited Unicap Ltd Unique Distributing Limited Utar Limited Valonia Investments Limited Virtue Trustees Limited Wainscot Properties Limited Warsaw Ltd Watergate Limited Weaver Enterprises Limited Westvlees Limited Westwall Investments Limited Wild Horizons Limited Will Ern Investments Ltd Winchester Securities Limited Winspear Developments Ltd Winster Limited Winterwood Investments Limited Worthy Corporate Services (Guernsey) Limited Worthy Nominees Limited Worthy Secretaries Limited Worthy Securities Limited

Director	Current directorships	Past directorships
		Worthy Trust Company Limited Wyfields Limited Xenox Trading Ltd Yarley Investments Limited Yorker Properties Ltd Zala Limited Zelstone Limited Zero Limited Zula Properties Limited
The Hon. James Ogilvy	Berkshire Capital Corporation (UK) Limited Foreign & Colonial Portfolios Fund SICAV Indian Investment Company SICAV Russian Investment Company SICAV Taiwan Investment Company SICAV Gascoyne Cecil Farms Limited Gascoyne Holdings Limited Perlprat Limited Salbourne Farms Limited Salisbury Pool Farms Limited Milton (Perterborough) Estates Company Milton Gate Development Company Highwood Farms Limited The Off-plan Fund Limited	Foreign & Colonial Investment Trust plc F&C Investment Management Limited United States Trust Co. of New York U.S. Trust Fund World Wide Growth Fund

4 ARTICLES OF ASSOCIATION

The Articles of Association of the Fund, together with the Fund Rules for the six Class Funds, contain provisions, inter alia, to the following effect:

4.1.1 Voting

The Shareholders have the right to receive notice of, and to vote at, general meetings of the Fund. Each Shareholder who is present in person (or, being a corporation, by representative) at a general meeting on a show of hands has one vote and, on a poll, every such holder who is present in person (or, being a corporation, by representative) or by proxy has one vote in respect of each Share held.

4.1.2 Variation of Rights

Subject to the Law, the special rights attached to any class of shares may be varied or abrogated with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of a Resolution passed at a separate meeting of the holders of such shares. The necessary quorum shall be two persons at least holding or representing by proxy one-third in number of the issued shares of the class (but so that if any adjourned meeting of such holders a quorum as above defined is not present those shareholders who are present shall be a quorum). Every holder of shares of the class concerned shall be entitled at such meeting to one vote for every share held by him on a poll. The special rights conferred upon the Shares or any shares or class of shares issued with preferred, deferred, or other special rights shall not be deemed to be varied by the exercise of any power under the disclosure provisions requiring shareholders to disclose an interest in the Fund's shares as set out in the Articles.

4.1.3 Offers of Shares

(a) Subject to the provisions of the Articles and without prejudice to any special rights conferred on the holders of any class of shares, any share in the Fund may be issued with or have attached thereto such preferred, deferred or other special rights, or such restrictions whether in regard to dividend, return of capital, voting or otherwise as the Fund may from time to time by Ordinary Resolution determine.

(b) Subject to the Articles, the unissued shares shall be at the disposal of the Directors, and they may allot, grant options over, issue warrants in respect of or otherwise dispose of them to such persons, at such times and generally on such terms and conditions as they determine.

(c) The Fund may also pay such brokerages and/or commissions as may be lawful.

(d) No person shall be recognised by the Fund as holding any shares upon any interest other than an absolute right of the registered holder to the entirety of a share.

4.1.4 Notice requiring disclosure of interest in Shares

The Directors may serve notice on any member requiring that member to disclose to the Fund the identity of any person (other than the member) who has an interest in the Shares held by the member. Any such notice shall require any information in response to such notice to be given within such reasonable time as the Directors may determine.

If any member is in default in supplying to the Fund the information required by the Fund within the prescribed period (which is 28 days after service of the notice or 14 days if the shares concerned represent 0.25% or more of the issued shares of the relevant class), the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the shares in respect of which the default has occurred (the "default shares") the member shall not be entitled to vote in general meetings or class meetings. Where the default shares represent at least 0.25% of the class of shares concerned the direction notice may additionally direct that dividends on such shares will be retained by the Fund (without interest) and that no transfer of the shares (other than a transfer authorised under the Articles) shall be registered until the default is rectified.

4.1.5 Uncertificated Shares

The Articles are consistent with CREST membership and, inter alia, allow for the holding and transfer of Shares in uncertificated form.

4.1.6 Transfer of Shares

In the event the Directors determine that the Shares may be held in certificated form, the following shall apply to the transfer of Shares held in such form:

Subject as provided below, any member may transfer all or any of his Shares by instrument of transfer in any form which the Directors may approve. The instrument of transfer of a Share shall be signed by or on behalf of the transferor.

The Directors may refuse to register any transfer of Shares unless the instrument of transfer is lodged at the registered office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

The Directors may refuse to register a transfer:

(a) of any Share which is not fully paid up or on which the Fund has a lien provided that this would not prevent dealings from taking place on an open and proper basis;

(b) if as a result of the transfer, the transferee or transferor would not be an Eligible Investor;

(c) where the holding of such Shares may result in regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Fund or the Shareholders as a whole; or

(d) as a result of the transfer, the transferee or transferor would hold less than the Minimum Holding of Shares specified. This restriction on the Directors' ability to register a transfer of Shares is included in the Articles as a result of the requirements imposed on the Fund by the Jersey Financial Services Commission and EU legislation relating to minimum holdings.

Transfers or assignments of Founders Shares may not be made without the approval of the Directors.

The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine provided that such suspension shall not be for more than 30 days in any year.

While Property Shares of a particular denomination remain in issue, a Capital Protected Share of the same denomination shall not be capable of transfer unless a Property Share will be transferred by the transferor at the same time and to the same transferee as such Capital Protected Share, unless the Directors in their absolute discretion otherwise determine.

4.1.7 Compulsory transfer of Shares

In respect of Shares held in certificated form (and in respect of Shares held in uncertificated form to the extent compatible with the CREST Regulations), the Board may refuse to register any transfer of Shares, or may require the transfer of Shares owned or which appear to be owned directly by any person who, by virtue of his holding, may in the opinion of the Directors give rise to a breach of any applicable law or requirement in any jurisdiction or may cause or be likely to cause the Fund or shareholders of the Fund some legal, pecuniary or material disadvantage or cause or be likely to cause the assets of the Fund to be considered "plan assets" within the meaning of the regulations adopted under the US Employee Retirement Income Security Act of 1974, as amended, or which holding would or might result in the Fund being required to register or qualify under the US Investment Companies Act of 1940 or other US law.

If at any time the net asset value of any one Class Fund (calculated in accordance with the Articles) shall be less than the equivalent of €0.5 million (or such other sum in relation to any Class Fund as may be specified in the relevant Fund Rules) the Fund may by not less than 4 weeks notice to Shareholders, redeem at the price determined by the Directors, all (but not some) of the Shares of that class not previously redeemed. Shareholders to do not have the right to redeem their Shares.

4.1.8 Alteration of capital and purchase of Shares

The Fund may from time to time, subject to the provisions of the Law, purchase its own shares (including any redeemable shares) in any manner authorised by the Law.

The Law provides that the Fund may by special resolution consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares; subdivide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum; cancel any shares which at the date of the resolution have not been taken or agreed to be taken and diminish its authorised share capital accordingly; convert all or any fully paid up shares into stock and reconvert that stock into paid up shares of any denomination; and convert its fully paid shares into shares denominated in a different currency.

The Fund may by special resolution reduce its share capital, any redemption reserve fund or any stated capital account in any manner permitted by and with and subject to any consent required by the Law.

4.1.9 Interests of Directors

(a) Save as mentioned below, a Director may not vote or be counted in the quorum on any resolution of the Board (or a committee of the Directors) in respect of any matter in which he has (together with any interest of any person connected with him) a material interest (other than by virtue of his interest, directly or indirectly, in shares or debentures or other securities of the Fund).

(b) Subject to the Law, Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

(i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person for the benefit of the Fund or any of its subsidiaries;

(ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Fund or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

(iii) a contract, arrangement, transaction or proposal concerning or the offer of shares, debentures or other securities of the Fund or its subsidiaries in which offer he is or may be entitled to participate or in the underwriting or sub-underwriting of which he is to or may participate;

(iv) any proposal concerning any other company in which he is interested, directly or indirectly, as an officer, creditor or shareholder or otherwise, provided that he, together with persons connected with him, is not to his knowledge the holder of or beneficially interested in 1% or more of any class of the equity share capital of any such company (or of any third company through which his interest is derived) or of the voting rights of such company;

(v) any arrangement for the benefit of employees of the Fund or any of its subsidiaries which accords to the Director only such privileges and advantages as are generally accorded to the employees to whom the arrangement relates; or

(vi) any proposal for the purchase or maintenance of insurance for the benefit of the Director or persons including the Directors.

(c) Any Director may act by himself or by his firm in a professional capacity for the Fund, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

(d) Any Director may continue to be or become a director, managing director, manager or other officer or member of a company in which the Fund is interested, and any such Director shall not be accountable to the Fund for any remuneration or other benefits received by him.

4.1.10 Remuneration of Directors

(a) The Directors shall be remunerated for their services at such rate as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £100,000 per annum (or such sum as the Fund in general meeting shall from time to time determine). The Directors shall also be entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.

(b) A Director may hold any other office or place of profit under the Fund (other than the office of auditor) in conjunction with his office of Director on such terms as to tenure of office and otherwise as the Directors may determine.

(c) The Directors may from time to time appoint one or more of their body to the office of managing director or to any other office for such term and at such remuneration and upon such terms as they determine.

4.1.11 Retirement of Directors

(a) Directors shall not be subject to retirement by rotation.

(b) A Director shall not be required to hold any qualification shares.

(c) No person shall be or become incapable of being appointed a Director by reason of having attained the age of 70 or any other age and no Director shall be required to vacate his office at any time by reason of the fact that he has attained the age of 70 or any other age.

4.1.12 Dividends and distribution of assets on a winding up

(a) Subject to the rights of persons entitled to shares with special rights as to dividends, the Fund in general meeting may declare a dividend but no dividend shall exceed the amount recommended by the Directors.

(b) No dividend shall be paid other than from the profits (including for the avoidance of doubt all gross revenues) resulting from the Fund's business.

(c) The Directors may if they think fit from time to time pay the members such interim dividends as appear to be justified by the profits of the Fund.

(d) No dividend or other amount payable to any Shareholder shall bear interest against the Fund. All unclaimed dividends and other amounts payable as aforesaid may be invested or otherwise made use of for the benefit of the Fund until claimed. Payment by the Fund of any unclaimed dividend or other amount payable in respect of a share into a separate account shall not constitute the Fund a trustee in respect thereof. Any dividend unclaimed on the earlier of (1) seven year from the date when it first became payable or (2) the date on which the Fund is wound up, shall be forfeited automatically, without the necessity for any declaration or other action by the Fund.

(e) The Directors are also empowered to create reserves before recommending or declaring any dividend. The Directors may also carry forward any profits which they think prudent not to divide.

(f) The Articles permit up to 100% of management and administration fees, finance costs and all other expenses to be charged to capital.

(g) If the Fund should be wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may with the authority of a special resolution and any other sanction required by Law, divide amongst the members in specie the whole or any part of the assets of the Fund and whether or not the assets shall consist of property of one kind or of properties of different kinds, and may for such purposes set such value as he deems fair upon any one or more class or classes or property, and may determine how such division should be carried out as between the members or different classes of members.

4.1.13 Life of the Fund

The Directors shall convene an extraordinary general meeting to be held on or within 60 days before 30 June 2012 (or if that day is not a Business Day on the next Business Day) at which a resolution shall be proposed for the winding up of the Fund. The Directors may be relieved from the obligation to convene such meeting by special resolution of holders of the Property Shares passed at any time prior to 30 June 2012.

4.1.14 Borrowing

(a) The Directors may exercise all and any powers of the Fund to borrow money.

(b) Any person lending money to the Fund shall be entitled to assume that the Fund is acting in accordance with the Articles and shall not be concerned to enquire whether such provisions have in fact been complied with.

4.1.15 Register of Shareholders

The register of Shareholders is the hard copy register of Shareholders kept in Jersey pursuant to Article 41 of the Law.

5 OVERSEAS INVESTORS

No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. This document may not therefore be used for the purpose of, and does not constitute, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Accordingly, no person receiving a copy of this document in any territory other than the United Kingdom, may treat the same as constituting an offer or invitation to him to acquire, subscribe for or purchase Shares nor should he in any event acquire, subscribe for or purchase Shares unless such an invitation, acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory. Any person outside the United Kingdom wishing to acquire, subscribe for or purchase Shares should satisfy himself that, in doing so, he complies with the laws of any relevant territory, and that he obtains any requisite governmental or other consents and observes any other applicable formalities.

The Fund is not registered with the US Securities Exchange Commission under the US Investment Companies Act of 1940, as amended (the "1940 Act"). In addition, the Shares are not registered under the US Securities Act of 1933, as amended (the "1933 Act"). Therefore, the Shares may not be publicly offered or sold in the US or directly or indirectly to or for the benefit of a "US Person" as

defined herein. A “US Person” as used herein means a “US Person” as defined under Regulation S of the 1933 Act, as well as the following (1) a citizen or resident of the US; (2) a partnership or corporation organised or incorporated under the laws of any state, territory or possession of the US; (3) any estate or trust, other than an estate or trust which is not subject to US income tax on its income derived from sources outside the US and not effectively connected with the conduct of a trade or business within the US; or (4) any estate or trust which has a US Person as its executor, administrator, or trustee. Shares will be offered or sold within the United States only to Qualified Purchasers, as defined under the 1940 Act.

The Fund’s Articles contain provisions designed to restrict the holding of Shares by persons, including US Persons, where in the opinion of the Directors such a holding could cause or be likely to cause the Fund some legal, regulatory, pecuniary, tax or material administrative disadvantage.

6 MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Fund since its incorporation and are, or may be, material:

6.1.1 The Management Agreement dated 21 February 2005 between the Fund and the Manager under which the Fund has appointed the Manager to be responsible for the management of the Fund’s investment portfolio on a discretionary basis. The Agreement is subject to termination, inter alia, on 12 months’ notice such notice not to be given before the expiry of an initial term of 24 months from Admission. Under the Management Agreement, the Manager will receive a management and performance fee as described in this document (until otherwise varied by agreement). The Fund will reimburse the Manager in respect of out of pocket expenses, including travel expenses. The Manager has the benefit of an indemnity from the Fund under the terms of the Management Agreement in relation to liabilities incurred by the Manager in the discharge of its duties other than those arising by reason of any fraud, wilful default, negligence or bad faith on the part of the Manager or its delegate. The Management Agreement prohibits the Manager, its officers, employees and associates from directly or indirectly dealing as principal on the sale or purchase of property or other investments to or from the Fund or from otherwise dealing with the Fund as principal. The agreement also provides that the Manager will ensure that the Fund is given the opportunity to invest in investment opportunities which fall within the scope of the Fund’s investment policy before any investment in those opportunities if made by the Manager, its officers, employees or associates. The liability of the Fund under the Management Agreement is limited to the Property Portfolio.

6.1.2 The Property Investment Advisory Agreement dated 21 January 2005 between the Fund, the Manager and the Property Investment Adviser under which the Manager has appointed Development Capital Management (Bulgaria) plc as Property Investment Adviser to the Manager with responsibility for advising on the investment of the Property Portfolio. In consideration for the services rendered by the Property Investment Adviser the Manager shall pay the Property Investment Adviser a fee payable in equal monthly instalments in advance (as varied from time to time by agreement between the Manager and the Property Investment Adviser). The Property Investment Adviser has the benefit of an indemnity from the Manager in relation to liabilities incurred by the Property Investment Adviser in the discharge of its duties other than those arising by reason of any fraud, wilful default, negligence or bad faith on the part of the Property Investment Adviser.

6.1.3 The Administration and Secretarial Agreement dated 21 February 2005 between the Fund, the Manager and the Administrator whereby the Fund has appointed to the Administrator to provide administrative services to the Fund. Under the Administration and Secretarial Agreement the Fund has also appointed the Administrator as secretary to the Fund. Under the Administration and Secretarial Agreement, the Administrator has the authority to delegate the discharge of certain of its functions thereunder provided that the Administrator remains fully responsible for the acts and omissions of any delegate it shall appoint for such purposes other than a delegate appointed at the request of the Fund or the Manager. The agreement is terminable on 3 months’ notice in writing after an initial one year term and on shorter notice in the event of breach of contract or insolvency. The Administrator will be paid an annual fee of £53,500 for its company secretarial, administration, and valuation services. The Fund will reimburse the Administrator in respect of reasonable out of pocket expenses properly incurred in the performance of its duties. The Administrator has the benefit of an indemnity from the Fund under the terms of the Administration Agreement in relation to liabilities incurred in the discharge of its duties other than those arising by reason of any bad faith, fraud, wilful default or negligence. The liability of the Fund under the Administration and Secretarial Agreement is limited to the Property Portfolio.

6.1.4 The Registrars Agreement dated 21 February 2005 between the Fund and Capita IRG (Offshore) Limited whereby the Registrar has agreed to act as registrar to the Fund. Under the Registrars Agreement the Registrar will be paid a minimum annual charge of £5,000 with such further fees to be determined under the Registrars Agreement. The Registrars Agreement may be terminated by the Registrar on 3 months' notice and by the Fund on 3 months' notice (such notice not to expire before the date which is 3 months after the first anniversary of the date of the Registrars Agreement).

6.1.5 The Securities, Nominee and Custody Agreement dated 21 February 2005 between the Fund, the Capital Protected Subsidiaries, the Property Subsidiary (the "Customers") and the Custodian under which the Custodian has agreed to act as custodian of the Customers' assets. The Custodian has the benefit of an indemnity from the Customers against liabilities arising in the absence of the Custodian's wilful misfeasance, bad faith, negligence, fraud or reckless disregard of its duties under this Agreement. The Custodian is to receive a fee of 0.05% per annum of the assets under custody. The Custodian Agreement is terminable on 30 days notice.

6.1.6 The Strategic Adviser Agreement dated 21 February 2005 between the Fund, the Manager, the Property Investment Adviser and the Strategic Adviser under which the Strategic Adviser has agreed to provide valuation services to the Fund for fee rates payable by the Fund varying between €1,500 and €8,000 depending on the size of the property. The Strategic Adviser may also provide other services including property acquisition and disposal services in return for commission payments payable by the Fund. The Strategic Adviser Agreement is terminable by the Fund or the Manager on 6 months' notice. The liability of the Fund under the Strategic Adviser Agreement is limited to the Property Portfolio.

6.1.7 A Nominated Adviser Agreement dated 21 February 2005 and a Broker Agreement dated 16 February 2005 between the Fund, the Directors and Collins Stewart pursuant to which Collins Stewart agrees to act as nominated adviser and broker to the Fund for the purposes of the AIM Rules. Collins Stewart has the benefit of an indemnity from the Fund in the absence of its negligence wilful default of fraud. The Broker Agreement may be terminated by either party on one month's notice after an initial term of one year. The Fund and Collins Stewart both have rights of automatic termination under the Nominated Adviser Agreement for material breach. In return for acting as adviser and broker, Collins Stewart will receive a fee of £12,500 on Admission and £15,000 per annum thereafter.

6.1.8 A Placing and Offer Agreement dated 21 February 2005 between the Fund, the Manager and Collins Stewart under which Collins Stewart is appointed as lead distributor for the purposes of the Offer. Collins Stewart will receive a corporate financial advisory fee from the Fund, conditional on Admission, of £25,000. Collins Stewart will also earn commission on amounts raised from clients of Collins Stewart under the Offer. The agreement includes warranties by the Manager and the Fund and an indemnity by the Fund of Collins Stewart for loss suffered except where Collins Stewart is negligent or in breach of duty.

6.1.9 Option Agreements dated 21 February 2005 between the Manager, Black Sea Investment Trust plc and Bulgarian Property Investment Trust plc under which the Manager has been granted the options described in Part I of this document. Under the Option Agreements, the Manager is given the right to acquire 20% of the units (by number, location, phase and type of unit) to be built at the Obzor, Kavarna and Shabla sites. BSIT and BPIT are obliged under the Option Agreements to prepare and produce to the Manager plans and specifications for the developments to be carried out on the sites. Once the units are identified, the Manager is entitled to exercise the options, at which point a deposit of 20% of the agreed purchase price is payable into an escrow account on terms such that it is released pro rata to bank financing. The Manager has agreed to share profits on the sale of units in excess of 20% with BSIT and BPIT such that the developer receives 70%.

6.1.10 The Deed of Assignment dated 21 February 2005 between the Manager and the Fund under which the Manager has agreed, conditional on Admission, to assign to the Fund the benefit of the Option Agreements in return for the issue to the Manager of Property Shares equal in number to 2% of the

Property Shares of each class issued under the Offer and a further 3% of such Shares on securing the required construction consents for the Shabla and Kavarna developments. These Property Shares will not be disposed of by the Manager for period of at least 3 years from Admission.

6.1.11 Intra-group Funding Agreements 21 February 2005 between the Fund, the Property Subsidiary and the Capital Protected Subsidiaries under which the Fund agrees to provide advances to the Property Subsidiary and the Capital Protected Subsidiaries in order to fund their investment activities.

6.1.12 The Investment Management Agreement dated 21 February 2005 entered into between the Fund, the Sterling Protected Subsidiary, the Dollar Protected Subsidiary, the Euro Protected Subsidiary and the Capital Protection Manager under which the Capital Protection Manager has agreed to manage the assets of the Capital Protected Subsidiaries as described in this document. The Capital Protection Manager will receive a first year structuring charge of £100,000 (if the Offer is fully subscribed) and an annual management fee on a sliding scale of between 0.10% and 0.18% of the value of the Capital Protected Subsidiaries' assets. If the subsidiary funds don't reach £20m in total assets raised, a minimum fee of £36,000 (0.18% multiplied by £20m) is payable in subsequent years (years 2-7) following the effective date of the Agreement. In respect of the Euro subsidiary and the Dollar subsidiary, fees will be paid yearly and in respect of the Sterling subsidiary, fees will be paid twice yearly. In addition, the Capital Protection Manager receives the benefit of soft commission arrangements. The Fund will be entitled to receive an annual report from the Capital Manager detailing the nature of these arrangements, the amounts paid and the advice provided. The Capital Protection Manager has the benefit of an indemnity in respect of loss arising from actions properly taken under the Investment Management Agreement. The Investment Management Agreement is terminable on immediate notice by the Fund and on 6 months notice by the Capital Protection Manager.

7 WORKING CAPITAL

In the Directors' opinion, having made due and careful enquiry, the working capital available to the Fund will, from Admission, be sufficient for its present requirements, that is for at least the next 12 months.

8 MISCELLANEOUS

8.1.1 The Shares will be in registered certificated form, although, under the Articles, the Shares are eligible for settlement in CREST.

8.1.2 The Fund has not been and is not currently engaged in any legal or arbitration proceedings nor, so far as the Fund is aware, are there any such legal or arbitration proceedings pending or threatened by or against the Fund which may have or have had since the Fund's incorporation a significant effect on the Fund's financial position.

8.1.3 None of the Shares available under the Offer are being underwritten.

8.1.4 The Shares do not have a par value.

8.1.5 The Directors confirm that the Fund was incorporated and registered on the date referred to in paragraph 1 above and that, save for its entry into the material contracts described in paragraph 6 above, the Fund has not traded, no accounts have been made up and no dividends have been declared.

8.1.6 There has been no significant change in the financial or trading position of the Fund since the date of its incorporation or any factors which have influenced its activities. The Fund does not have nor has it had since incorporation any employees and it neither owns nor leases any premises.

8.1.7 The minimum amount, which, in the opinion of the Directors must be raised by the Fund to provide sums required in respect of the matters specified in paragraph 21(a) of Schedule 1 to the Regulations is €10 million, which will be applied as follows:

(a) preliminary expenses payable by the Fund and any commission so payable to any person in consideration of his procuring or agreeing to subscribe for, or his procuring or agreeing to procure subscriptions for any shares in the Fund: approximately €900,000;

(b) working capital (available for investment): €9,100,000.

There are no amounts to be provided otherwise than from the proceeds of the Offer in respect of the matters specified in this paragraph 8.1.7.

8.1.8 The total costs and expenses payable by the Fund in connection with the Offer and Admission (including professional fees, the costs of printing and the other fees payable, excluding sales commission) will be 3% of the gross amount raised.

8.1.9 The Fund is not dependant on any patents or other intellectual property rights or licences.

8.1.10 The Fund currently has no significant investments in progress.

8.1.11 Save as disclosed in this document, no person has received, directly or indirectly, from the Fund since 27 January 2005 (the date of incorporation of the Fund) or entered into contractual arrangements to receive, directly or indirectly, from the Fund on or after Admission, fees totalling £10,000 or more or securities in the Fund with a value of £10,000 or more, calculated by reference to the Offer Price, or any other benefit with a value of £10,000 or more at the date of Admission.

8.1.12 The accounting reference date of the Fund is 31 December.

8.1.13 Collins Stewart, Capita IRG (Offshore) Limited, Colliers International and the Capital Protection Manager have given and not withdrawn their written consent to the inclusion in this document of references to their names in the form and context in which they appear.

8.1.14 KPMG Channel Islands Limited has given and not withdrawn its written consent to the inclusion of their accountants' report on the Fund in the form set out in Part IX of this document and references to its name in the form and context in which it appears and accepts responsibility for such report in accordance with regulation 13(1)(d) and paragraph 45(8)(b) of Schedule 1 to the Regulations.

9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Fund and at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN during business hours on any weekday from the date of this document (Saturdays and public holidays excepted) until the close of the Offer:

9.1.1 the Memorandum and Articles of the Fund;

9.1.2 the Fund Rules for the Class Funds;

9.1.3 the material contracts referred to in paragraph 6 of this Part VIII;

9.1.4 the Companies (Jersey) Law 1991, as amended;

9.1.5 the Collective Investment Funds (Jersey) Law 1988, as amended;

9.1.6 the Accountant's Report set out in Part X of this document;

9.1.7 the consent letters referred to in paragraph 8 of this Part VIII; and

9.1.8 this document.

PART IX

ACCOUNTANT'S REPORT ON THE COMPANY

The Directors
The Black Sea Property Fund Limited
BNP House
Anley Stret
St Helier
JE4 8RD

18 February 2005

Dear Sirs

The Black Sea Property Fund Limited ("the Fund")

We report on the financial information of the Fund set out below. This financial information has been prepared for inclusion in the admission document of the Fund dated 21 February 2005 ("the Prospectus").

Basis of preparation

The financial information set out below is based on the transactions of the Fund from incorporation on 27 January 2005 to 18 February 2005, being the date of this report and the latest practicable date prior to publication of the Prospectus.

Responsibility

The directors of the Fund are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Fund at that date.

Financial information

The Fund was incorporated on 27 January 2005 under the name The Black Sea Property Fund Limited. The Fund has four subsidiaries.

The Fund has not yet completed its first accounting period. No statutory financial statements have been prepared, audited or filed with the Registrar of Companies since incorporation.

At the date of this report, the authorised share capital of the Fund consists of an unlimited number of shares of no par value. The issued share capital of the Fund as at the date of this report consists of two founder shares of no par value.

The Fund owns the entire issued share capital of its four subsidiaries; namely BSPF (Sterling) Limited, BSPF (Property) Limited, BSPF (Euro) Limited, and BSPF (Dollar) Limited. The authorised share capital of these entities is 10,000 ordinary shares of £1, €1, €1 and US$1 each respectively. The Fund's investments in these companies consists of one ordinary £1 share in BPSF (Sterling) Limited; one ordinary €1 share in

BSPF (Property) Limited; one ordinary €1 share in BPSF (Euro) Limited; and one ordinary US$1 share in BPSF (Dollar) Limited. As at the date of this report, these entries are represented by matching creditors.

As at today's date, the Fund has carried out no trading and no transactions other than those outlined above.

Consent

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purpose of Section 45(8)(b), Part VII, Schedule 1 of The Public Offers of Securities Regulations 1995.

Yours faithfully

KPMG Channel Islands Limited

TERMS AND CONDITIONS OF APPLICATION

In these terms and conditions, which apply to the Offer of Sterling Units and Sterling Property Shares in the United Kingdom only:

"Applicant" means a person whose name appears on the registration details of an Application Form;

"Application" means the offer made by an Applicant by completing an Application Form and posting (or delivering) it to BN Paribas Fund Services Jersey Limited (the "Receiving Agent");

"Jersey Money Laundering Legislation" means the Proceeds of Crime (Jersey) Law 1999 and subordinate legislation and anti-money laundering guidelines made thereunder and every modification or re-enactment thereof for the time being in force;

"Money Laundering Regulations" means applicable money laundering regulations including the Jersey Money Laundering Legislation;

"Subscription Memorandum" means the final form offer document relating to the Offer published by the Fund.

(a) The right is reserved by the Fund to present all cheques and banker's drafts for payment on receipt and to retain share certificates, and surplus share certificates and application monies, pending clearance of successful Applicants' cheques and banker's drafts. The Fund also reserves the right to reject in whole or part, or to scale down or limit, any Application. The Fund may treat Applications as valid and binding even if not made in all respects in accordance with the prescribed instructions and the Fund may, at its discretion, accept an Application in respect of which payment is not received by the Fund prior to the closing of the Offer. If any Application is not accepted in full or if any contract created by acceptance does not become unconditional, or if Admission does not occur by 30 April 2005, the application monies or, as the case may be, the balance thereof will be returned (without interest) by returning each relevant Applicant's cheque or banker's draft or by crossed cheque in favour of the first-named Applicant, through the post at the risk of the person(s) entitled thereto. In the meantime, application monies will be retained by the Receiving Agent in a separate account.

(b) To ensure compliance with the Money Laundering Regulations, the identity of each Applicant must be verified, and, without prejudice to the generality of the foregoing, in particular from any person who either (i) tenders payment by way of a cheque, building society cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to be acting on behalf of some other person.

(c) Jersey Money Laundering Legislation requires that the identity of investors is verified. By way of example, an individual will be required to produce a copy of a passport or identification card duly certified by a notary public, together with two items of evidence of his/her residential address such as a utility bill and bank statement in addition to details of his/her nationality, date and place of birth. In the case of corporate applicants this will require production of a certified copy of the certificate of incorporation (and any change of name), memorandum and articles of association (or equivalent), the names, occupations, dates of birth and residential and business addresses of all directors. Additional information may be required at the Fund's discretion to verify the source of the subscription monies. The Fund is entitled at its absolute discretion to treat as invalid and reject an Application Form if satisfactory evidence as to identity has not been received by the close of the Offer.

The following is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting the Fund's right to require verification of identity as indicated above):

(i) where possible, Applicants should make payment by a cheque drawn on an account in their own name. If a third party cheque, banker's draft or building society cheque is used, the Applicant should:

— write his name and address on the back of the banker's draft or cheque and, in the case of an individual, record his date of birth against his name; and

— ask the bank or building society (if relevant) to endorse on the reverse of the banker's draft or cheque the full name and account number of the person whose account is being debited and stamp such endorsement.

(ii) If an Applicant makes the application as agent for one or more persons, he should indicate on the Application Form whether he is a UK or EU regulated person or institution (for example a bank or stockbroker) and specify his status. If an Applicant is not a UK or EU regulated person or institution, he should contact the Receiving Agent.

(iii) If an Applicant lodges an Application Form by hand, but the accompanying payment is not a cheque drawn in his own name, he should ensure that he has evidence of identity including his photograph (e.g. passport).

(d) By completing and delivering an Application Form, you, as the Applicant (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation, except as referred to in paragraph (ix) below):

(i) offer to subscribe for the number of Shares specified in your Application Form (or such lesser number for which your Application is accepted) on the terms of and subject to the Subscription Memorandum, including these terms and conditions, and subject to the Articles of Association of the Fund;

(ii) agree that, in consideration of the Fund agreeing to process your Application, your Application cannot be revoked until after 30 April 2005 and that this paragraph shall constitute a collateral contract between you and the Fund which will become binding upon despatch by post to, or (in the case of delivery by hand) on receipt by, the Receiving Agent of your Application Form;

(iii) agree and warrant that your cheque or banker's draft may be presented for payment on receipt and will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive a certificate in respect of the Shares until you make payment in cleared funds for Shares and such payment is accepted by the Fund in its absolute discretion (which acceptance shall be on the basis that you indemnify it and the Receiving Agent against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Fund of such late payment, the Fund may (without prejudice to its other rights) avoid the agreement to subscribe such Shares and may issue or allot such Shares to some other person, in which case you will not be entitled to any payment in respect of such Shares other than the refund to you at your risk of the proceeds (if any) of the cheque or banker's draft accompanying your application, without interest;

(iv) agree that any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by the Money Laundering Regulations and that such monies will not bear interest;

(v) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Fund) to ensure compliance with the Money Laundering Regulations;

(vi) agree that, in respect of those Shares for which your Application has been received and is not rejected, acceptance of your Application shall be constituted, at the election of the Fund, either (i) by notification to the London Stock Exchange of the basis of allocation (in which case acceptance shall be on that basis) or (ii) by notification of acceptance thereof to the Receiving Agent;

(vii) agree that any monies returnable to you may be retained by the Receiving Agent pending clearance of your remittance and that such monies will not bear interest;

(viii) authorise the Fund (or its agent) to send share certificate(s) in respect of the number of Shares for which your Application is accepted and/or a crossed cheque for any monies returnable, by post without interest, at the risk of the person entitled thereto, to the address of the person named as an Applicant in the Application Form and to procure that your name is placed on the register of members of the Fund in respect of such Shares;

(ix) warrant that, if you sign the Application Form on behalf of somebody else or on behalf of a corporation, you have due authority to do so on behalf of that other person or corporation, and such person or corporation will also be bound accordingly and will be deemed also to have given the confirmations, warranties, undertakings and authorities contained herein and undertake to enclose your power of attorney or a copy thereof duly certified by a solicitor or bank with the Application Form;

(x) agree that all Applications, acceptances of Applications and contracts resulting therefrom shall be governed by and construed in accordance with English law, and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Fund to bring any action, suit or proceeding arising out of or in connection with any such Applications, acceptances of Applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;

(xi) confirm that, in making such Application, neither you nor any person on whose behalf you are applying are relying on any information or representation in relation to the Fund other than the information contained in the Subscription Memorandum and, accordingly, you agree that no person responsible solely or jointly for the Subscription Memorandum or any part thereof or involved in the preparation thereof shall have any liability for any such information or representation;

(xii) irrevocably authorise the Receiving Agent and/or the Fund, or any person authorised by either of them, as your agent, to do all things necessary to effect registration of any Shares subscribed by or issued to you into your name(s) or into the name(s) of any person(s) in whose favour the entitlement to any such Shares has been transferred and authorise any representative of the Receiving Agent or of the Fund to execute any document required therefor;

(xiii) agree that, having had the opportunity to read the Subscription Memorandum, you shall be deemed to have had notice of all information and representations concerning the Fund and the Shares contained therein;

(xiv) confirm that you have reviewed the restrictions contained in paragraph (e) below;

(xv) warrant that, if you are an individual, you are not under the age of 18;

(xvi) agree that all documents and cheques sent by post to, by or on behalf of the Fund or the Receiving Agent, will be sent at the risk of the person(s) entitled thereto;

(xvii) agree, on request by the Fund to disclose promptly in writing to the Fund any information which the Fund may reasonably request in connection with your Application and authorise the Fund to disclose any information relating to your Application as it considers appropriate.

(e) No person receiving a copy of the Subscription Memorandum or an Application Form in any territory other than the United Kingdom, may treat the same as constituting an offer or invitation to him to acquire, subscribe for or purchase Shares nor should he in any event acquire, subscribe for or purchase Shares unless such an invitation, acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory.

(f) The basis of allocation will be determined by the Fund. The right is reserved to reject in whole or in part and/or scale down and/or ballot any Application or any part thereof. The right is reserved to treat as valid any Application not in all respects completed in accordance with the instructions relating to the Application Form, including if the accompanying cheque or banker's draft is for the wrong amount.

(h) Save where the context otherwise requires, words and expressions used in the Subscription Memorandum have the same meanings when used in these terms and conditions and in the Application Form and explanatory notes in relation thereto.

NOTES ON HOW TO COMPLETE THE APPLICATION FORM

1 Personal details

To apply for shares in the Fund, you must supply your full name, full address and daytime telephone number. Applications may only be made by persons aged 18 or over.

Please remember to sign and date the Application Form.

2 Investment

Please insert (in figures) the amount you are subscribing. Your subscription must be for a minimum of £30,000. There is no maximum investment limit. Joint applicants are not permitted. Please refer to the Money Laundering Regulations below.

3 How to pay

Enclose your cheque or banker's draft for the exact amount shown in Box 2. Your cheque or banker's draft must be made payable to "Development Capital Management (Jersey) Limited Client Settlement Account A/C The Black Sea Property Fund Limited" and crossed "a/c payee only".

Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the Cheque & Credit Clearing Fund Limited or the CHAPS Clearing Fund Limited or is a member of the Scottish Clearing Banks Committee or the Belfast Bankers Clearing Committee or which has arranged for its cheques or bankers' drafts to be cleared through facilities provided for members of any of those companies or associations and must bear the appropriate sort code in the top right-hand corner.

The right is reserved to reject an Application in respect of which the Applicant's cheque or banker's draft has not been cleared on first presentation. Any monies returned will be sent by cheque crossed "a/c payee only" in favour of the Applicant.

> **Money Laundering Regulations—**If subscriptions by an individual are accompanied by a cheque or banker's draft drawn by someone other than the Applicant named in Box 1 (for example, a building society cheque), one of the following additional documents must be enclosed with the Application Form: a copy of the Applicant's passport or driving licence or a recent original bank or building society statement or utility bill in the Applicant's name. A copy passport or driving licence should be certified by a solicitor or a bank. Original documents will be returned by post at the Applicant's own risk. Please note that if the above requirements are not fulfilled and suitable evidence of identity cannot be obtained, your Application may not be accepted.

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APPLICATION FORM

(for UK Offering only)

The Black Sea Property Fund Limited

Before completing the Application Form, please read the "Notes on how to complete the Application Form".

1. Personal details

Insert your full name and address in BLOCK CAPITALS. The Applicant must sign and date this Box.

Mr/Mrs/Miss/Ms/Title	
Forename(s) in full	
Address in full	
Postcode	Daytime telephone no.

Signature	Date

I/We offer to subscribe the amount(s) specified below for Sterling Property Shares and/or Sterling Units in The Black Sea Property Fund Limited under the terms and conditions of Application set out in the Subscription Memorandum.

2. Investment

Write in (figures) the amount you wish to apply for Sterling Units (minimum £30,000)	**£**
Write in (figures) the amount you wish to apply for Sterling Property Shares (minimum £30,000)*	**£**

* *Note: the Offer Price of the Sterling Property Shares will be determined following the Closing Date. Your subscription amount will be applied in subscription for such number of Sterling Property Shares as can be acquired at that price. Any fraction of cash will be retained by the Fund for the benefit of the Property Shares.*

3. How to pay

Enclose your cheque or banker's draft for the exact amount shown in Box 2 above. Your cheque or banker's draft must be made payable to "Development Capital Management (Jersey) Limited Client Settlement Account A/C The Black Sea Property Fund Limited" and crossed "a/c payee only". Your payment must relate solely to this Application. No receipt will be issued. The right is reserved to reject any Application in respect of which the Applicant's cheque or banker's draft has not been cleared on first presentation.

Authorised financial intermediaries should stamp and complete the box below:

Stamp of authorised financial intermediaries:	**For Official Use Only**
FSA Authorisation Number:	Account Number:

Data Protection Act: by signing this Application Form you consent to the processing of your personal details by the Fund, the Receiving Agent and the Manager.