

Sofia Cinema Hotel BUSINESS PROPOSAL 14 March 2010



1. INTRODUCTION

Quintessence BG (QBG) is pleased to submit this Business Proposal for the design, construction and operation of the proposed Sofia Cinema Hotel project in Sofia, Bulgaria.

The purpose of this Business Proposal is to enable potential investors and/or financiers to gain an overview of the nature and parameters of the Sofia Cinema Hotel project in order to begin the process of informed decision making. To this end, we have compiled a description of the existing site and related local permitting issues, as well as an overview of both the political/economic climate and the entertainment sector in the region.

The latter section of the plan reviews the costings and timetable for design and construction of the hotel, and finally the projected operational concept, financial projections, and base alternative for implementation.

New Concept

The Hotel Room - Movie Theater Experience

The movie theater is unique, for unlike any other building or space, it is designed to house some of the greatest products of the imagination - our passions, hopes, and fears. A converted to theater hotel room has personality and life all its own; a sense of excitement lures guests to the blaze of electric bulbs along the marquee, to the enticing posters outside the lobby. And when the curtains part, our window upon the universe opens wide, and the heart begins to beat a little faster.

Movie Technology For The Hotel Guests

Today's fascinating audio/video technology brings Sofia Cinema Hotel room the cinematic quality of the big screen experience. Recent advances in video and audio technology have given guests the ability to view high-fidelity movies in the comfort of their hotel room. From screens and projectors to speakers and surround sound, hotel room theater has emerged to be an integral part of unique entertainment. Why not give your favorite hotel a proper setting for this technology?

2. PROJECT DESCRIPTION

The Site



The Sofia Cinema Hotel Project site is on one of the Sofia's most beautiful area. The project area is a rare and beautiful natural garden.

Sofia is the capital and largest city of the Republic of Bulgaria, with a population of 1,770,010 (making it the 14th largest city in the European Union), and some 1,986,702 in the metropolitan area. It is located in western Bulgaria, at the foot of the mountain massif Vitosha, and is the administrative, cultural, economic, and educational centre of the country.

One of the oldest cities in Europe, the history of Serdica-Sredets-Sofia can be traced back some 7000 years ago - prehistoric settlements were excavated in the centre of the present city - near the Zar's (King's) Palace, as well as in the suburbia like Slatina and Obelia. The well preserved town walls (especially - their substructures) from antiquity date back before the 7th century BC, when Thracians established their city next to the most important and highly respected mineral spring, still functioning today. Sofia has had several names in the different periods of its existence, and remnants of the city's millenary history can still be seen today alongside modern landmarks.

Sofia's development as a significant settlement owes much to its central position in the Balkans. It is situated in western Bulgaria, at the northern foot of the Vitosha mountain, in the Sofia Valley that is surrounded by mountains on all sides. The valley is the largest one in the country with territory of 1,186 square kilometres (457.9 sq mi) and average altitude of 550 metres (1,804 ft). Three mountain passes lead to the city, which have been key roads since antiquity, connecting the Adriatic Sea and Central Europe with the Black and Aegean Seas.

A number of low rivers cross the city, including the Vladaiska and the Perlovska. The Iskar River in its upper course flows near eastern Sofia. The city is known for its numero mineral and thermal springs. Artificial and dam lakes were built in the last century.

It is located 150 km (90 miles) northwest of Plovdiv, Bulgaria's second largest city, 390 km west of Burgas, 472 km (294 miles) west of Varna, Bulgaria's major port-cities on the Bulgarian Black Sea Coast. The city is situated at less than 200 kilometres (124 mi) from the borders with three countries: 55 kilometres (34 mi) from Kalotina on the Serbian border, 113 kilometres (70 mi) from Gyueshevo on the frontier with the Republic of Macedonia and 183 kilometres (114 mi) from the Greek border at Kulata.

Climate

Sofia has a moderate continental climate with high temperature amplitudes. The hottest month is August while January is the coldest. Up to 1936 the average annual temperature was 10.0 °C (50 °F) and since then it has risen with +0.5 °C (+1 °F). The city receives around 650 millimetres (25.6 in) annual precipitation with summer maximum and winter minimum. Sofia generally remains less hot in summer than other parts of Bulgaria, due to the high altitude of the valley it is situated in, although temperatures can still reach 40 °C on occasions.

Antiquity

The Church of Sv. Georgi is among the oldest Christian temples in the Balkan peninsula dating back to 4th century.

Sofia was originally a Thracian settlement called Serdica, or Sardica, possibly named after the Thracian tribe Serdi. Around 500 BC another tribe settled in the region, the Odrysi, known as an ethnos with their own kingdom. For a short period during the 4th century BC, the city was ruled by Philip of Macedon and his son Alexander the Great.

Around AD 29, Serdica was conquered by the Romans. It became a municipium, or centre of an administrative region, during the reign of Emperor Trajan (98-117) and was renamed Ulpia Serdica.

It seems that the first written mention of Serdica was made by Ptolemy (around 100 AD).

Serdica (Sardica) expanded, as turrets, protective walls, public baths, administrative and cult buildings, a civic basilica, an amphitheatre - the City Council (Boulé), a large Forum, a big Circ (Theatre) etc. were built. When Emperor Diocletian divided the province of Dacia into Dacia Ripensis (at the banks of the Danube) and Dacia Mediterranea, Serdica became the capital of Dacia Mediterranea. The city subsequently expanded for a century and a half, it became a significant political and economical centre, moreover - it became one of the first Roman cities where Christianity was recognized as an official religion (Emperor Galerius). So it was only very natural that Constantine the Great called Serdica (Sardica) "My Rome".

Serdica was of moderate size, but magnificent as an urban concept of planning and architecture, with abundant amenities and an active social life. It flourished during the reign of Byzantine Emperor Justinian I, when it was surrounded with great fortress walls whose remnants can still be seen today.

The city was destroyed by the Huns in 447 but was rebuilt by Justinian and for a while called Triaditsa.

Middle Ages

Sofia first became part of the First Bulgarian Empire during the reign of Khan Krum in 809 after a long siege. Afterwards, it was known by the Bulgarian name Sredets and grew into an important fortress and administrative centre. After the fall of North-eastern Bulgaria under John I Tzimiskes' armies in 971, the Bulgarian Patriarch Damyan chose Sofia for his seat in the next year. After a number of unsuccessful sieges, the city fell to the Byzantine Empire in 1018, but once again was incorporated into the restored Bulgarian Empire at the time of Tsar Ivan Asen I.

From the 12th to the 14th century, Sofia was a thriving centre of trade and crafts. It is possible that it has been called by the common population Sofia (meaning "wisdom" in Ancient Greek) about 1376 after the Church of St. Sofia. However, in different testimonies it was called both "Sofia" and "Sredets" until the end of the 19th century. In 1382 Sofia was seized by the Ottoman Empire in the course of the Bulgarian-Ottoman Wars - after a long siege the city was captured with treason. The new name - Sofia, replaced the old one - Sredets, after the liberation of the city from Turkish rule in 1878. Quite a time after 1878 there was a strong will, expressed by Bulgarian committees, to keep the name Sredets, but the Russian administration accepted Sofia.

Ottoman rule

After the campaign of Władysław III of Poland in 1443 towards Sofia, the city's Christian elite was annihilated and became the capital of the Ottoman province (beylerbeylik) of Rumelia for more than 4

centuries, which encouraged many Turks to settle there. In the 16th century Sofia's appearance became more Oriental with many mosques, fountains and hamams (bathhouses). During that time the town had a population of around 7,000 which rose to 55,000 by the mid 17th century.

The town was seized for several weeks by Bulgarian haiduks in 1599. In 1610 the Vatican established the See of Sofia for Catholics of Rumelia, which existed until 1715 when most Catholics had emigrated. In the 16th century there were 126 Jewish households, and there has been a synagogue in Sofia since 967.

End of Ottoman Rule

Sofia was taken by Russian forces on 4 January 1878, during the Russo-Turkish War, 1877-78, and became the capital of the autonomous Principality of Bulgaria in 1879, which became Kingdom of Bulgaria in 1908. It was proposed for capital by Marin Drinov and was accepted as such on 3 April 1879. By the time of its liberation the population of the was 11,649.[5] For a few decades after the liberation the city experienced a large population growth mainly from other regions of the country.

In 1925 the St Nedelya Church assault was carried out by the Bulgarian Communist Party which claimed the lives of 170 people and injured another 500.

During World War II, Sofia was bombed by Allied aircraft in late 1943 and early 1944, as well as later occupied by the Soviet Union. As a consequence of the Russian occupation with the approval of the Allied countries A, Great Britain, France, Bulgaria's government, which allied the country with Germany, was overthrown by a communist revolution. Like Prag, Warsaw, Bucarest etc. Sofia became a capital of the Communist-ruled People's Republic (1944).

The country did not lose territory, but lost vital and important connections with Bulgarian population abroad and all over the world. During that time the population of Sofia expanded at high rates, as a great push has been given to the industrial development of the city - many new large factories and manufacturing plants were built in and around the city. That led to the creation of many new neighbourhoods and expansion of the public transport network.

Administration

The city of Sofia is one of 28 Provinces of Bulgaria (not to be confused with Sofia Province, which surrounds but does not include the city). Besides the city of Sofia, the capital province encompasses three other cities and 34 villages, being split into a total of 24 municipalities. Each municipality has a head person who is elected by the municipal assembly. The head of the county is its mayor. The assembly members are chosen every four years. The current mayor of Sofia is Boyko Borisov.

According to 1999 data, the whole Capital Municipality, with a population of 1,326,377 as of June 2006, had a population density of 917.8, by far the highest in the country. The city itself has a population of 1,203,680.

The ratio of women per 1,000 men was 1,114 and the rate of population ageing was 100.3. The birth rate per 1000 people was 7.9 and steadily declining in the last 15 years, the death rate reaching 12.2 and growing. The population was declining by 4.3 per cent. However, considerable immigration to the capital from poorer regions of the country, as well as urbanization, are the reason Sofia's population is in practice increasing. 5.7 people of every one thousand were married and the infant mortality rate was 11 dead babies per 1,000 born alive, down from 18.9 in 1980.

The unemployment is significantly lower than in other parts of the country – 2.45% of the active population in 1999 and declining, compared to 5.25% for the whole of Bulgaria as of July 1, 2007 (also on the decrease). The large share of unemployed people with higher education, 27% as compared to 7% for the whole country, is a characteristic feature of the capital.

When Sofia was declared capital in 1879 it was the fifth-largest city in the country after Plovdiv, Re, Varna and Shumen. Plovdiv remained the most populous town in Bulgaria till 1892 when Sofia took the lead.

Culture

Sofia is one of the oldest capital cities in Europe, blending its past and present in a remarkable architectural style. Historic landmarks include the 10th century Boyana Church (one of the UNESCO World

Heritage protected sites), the Alexander Nevski Cathedral (one of the world's largest Orthodox churches), and the early Byzantine Church of St Sophia.

Sofia is the see of an Eastern Orthodox and of a Roman Catholic diocese.

More modern architecture is represented by the Bulgarian National Opera and Ballet, the Ivan Vazov National Theatre, the Rakovski Str theatre district, Slaveykov Square's outdoor book market, and the NDK, which is Southeastern Europe's largest cultural and congressional centre.

Sofia has also a huge nightlife scene with many different night clubs, live venues, pubs, mehani (Bulgarian traditional taverns), and restaurants. Many of the famous Bulgarian mic groups were established in Sofia such as Shturtzite, Hipodil, Epizod and FSB. The city hosts many of the major world mic acts that play shows in Bulgaria such as Depeche Mode, Iron Maiden, Marilyn Manson, Eros Ramazotti, DJ Tiesto, Transglobal Underground, Judas Priest, Robin Gibb, Wu-tang Clan and Rihanna to name a few.

Museums

Sofia houses numerous museums, notably the National Historical Museum, the Bulgarian Natural History Museum, the Museum of Earth and Men, the Ethnographic Museum, the National Museum of Military History, the National Polytechnical Museum and the National Archaeological Museum. In addition, there are the Sofia City Art Gallery, the Bulgarian National Gallery of Arts, the Bulgarian National Gallery for Foreign Art as well as numerous private art galleries.

Places of special interest

The city also offers many places of special interest such as the Sts. Cyril and Methodi National Library (which hoes the largest national book collection and is Bulgaria's oldest cultural institute), the Sofia State Library, the British Council, the Russian Cultural Institute, the Polish Cultural Institute, the Hungarian Institute, the Czech and the Slovak Cultural Institutes, the Italian Cultural Institute, the French Cultural Institute, Goethe Institut, Instituto Cervantes, and the Open Society Institute. Families with children used to be able to enjoy Sofia Land, the nearly nine-acre amement park adjuscent to the Sofia Zoological Garden (founded in 1888). Unfortunately the park was closed in 2006.

Sofia currently enjoys a booming film industry as the filming ground of several international film productions. Vitosha Boulevard, also called Vitoshka – ranked as the world's 22nd most expensive commercial street – represents numerous fashion boutiques and luxury goods stores and features exhibitions by world fashion designers. Sofia's geographic location, situated in the foothills of the weekend retreat Vitosha mountain, further adds to the city's specific atmosphere.

The land is neighbouring with Vrana Palace



Vrana Palace (Bulgarian: Дворец „Врана“, Dvoretz „Vrana“) is a former Royal palace, located on the outskirts of Sofia, the capital of Bulgaria. It is today the official residence of the deposed Tsar Simeon II of Bulgaria and his wife Tsaritsa Margarita. While the Royal palace in the centre of Sofia (today the National Art Gallery and National Ethnographic Meum) served representative purposes and the Euxinograd palace near Varna was a summer residence, Vrana was the palace where the royal family of Bulgaria spent most of their time.

The extensive lot was bought by Tsar Ferdinand I in 1898 and is situated just outside Sofia. There is a park and two buildings, the first one built in 1904 as a two-storey hunting lodge commissioned to Georgi Fingov, and the second constructed mainly between 1909 and 1914 as a palace, both with money from the state budget.

Three rooms of the three-storey palace commissioned to the noted architect Nikola Lazarov were later furnished in the Baroque style, one in the style of the Atrian royal palaces and one in a Bulgarian national style, while the study was designed in a Venetian style. The palace features a carved wooden ceiling, oak wainscoting, built-in metal plates and Delftware. The interior columns are made of Carrara marble and an old Schindler lift is still in e.

The Karelian Hall is a gift from Alexander III of Rssia, and all of its furniture (the table, the chairs and the dressing table) are made of Karelian birch by master woodworkers specially sent from Rssia. The first storey also has a cinema hall and tea halls, the second storey is where the apartments are located, and the third one ed to be allocated to the servants and the court.

In 1918 Vrana passed from Tsar Ferdinand to Boris III. In 1943, it became the property of Simeon II. The main palace was bombed by the RAF in World War II and was subsequently restored in 1947. After the abolition of the monarchy, Vrana was taken by the communists and became a residence of Georgi Dimitrov.

After the fall of the communist regime, Vrana was returned to the last tsar, Simeon Saxe-Coburg-Gotha and his sister Princess Maria Luisa, by the Bulgarian Constitutional Court in June 1998, and the park was donated by the royal family to the city of Sofia in October 1999, making it possible for the former royal park, arranged in 1903 by Ferdinand, to be opened to the public. Simeon moved with his wife Margarita into the renovated old hunting lodge in 2001. As of February 2009, the 0.968-square-kilometre park is expected to be opened to the public as soon as funds are found to finance its preparation for public e (construction of a car park, toilets and stalls, hiring of guides, etc.). The park is home to over 400 plant species and has been declared a national monument of landscape architecture.

The palace, along with the other properties given back to Simeon II, has been the subject of much controversy in the Bulgarian media and society in the 2000s, as many argue they are in fact supposed to be public property.

The land is owned by Quintessence BG Ltd., a Bulgarian based company, and has been valued by land appraisers at approximately 5,500,000 Euro.

2. Site Specifications and Property Permits

Site Size	10,000 square meters
Maximum Building Percentage	40% of the 10,000 square meters. Excellent likelihood of increasing the maximum building percentage by submission of a special request
Approved and Suggested Building	10 story hotel and ancillary mechanical rooms, 250-450 rooms, stores, restaurants and cinemas
Cinemas Licensing	The cinema license for the property will be granted immediately upon presentation of valid architectural plans to the local building registry. It is preferable that the design be prepared by a local architect.
Sub-Structure	The Sofia government is obligated to supply the site with roads, water, electricity, telephone, and telecommunication infrastructure free of charge to owner or investors.

Access to the site	This 1 ha plot of land has two main roads for access. Situated next to the internationally acclaimed Vrana Palace, 20 minutes from the new international Sofia Airport currently under construction, the land is four minutes from Sofia Ring Road, 10 minutes from Sofia Airport, 30 minutes to Sofia Downtown.
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2.3 The Project

The project is a fully integrated and comprehensive five star cinema hotel complex. It centers around a 300 room luxury five star hotel (approximately 12,000 sq.m.) and will include a 1,900 sq.m. cinemas, a conference hall with a capacity of 750 people, a discotheque, 2 bars, 3 restaurants, 2 cafeterias, an indoor swimming pool, a Turkish bath and sauna, garden front facilities, a garden bar, an outdoor swimming pool with a cafeteria, a wedding and reception area, 6 tennis courts, parking facilities for 300 vehicles and full landscaping. Initial surveys and designs exist and form the basis of information for this Plan.

In the first phase, depending on the final financial and operational forecast, the hotel may be built with as few as 300 rooms, with a phase by phase plan prepared for the expansion of the complex over time.

2.4 The Local Licensing and Planning Framework

The Sofia Municipality has been ceaselessly encouraging the development of the entire Vrana Palace area.

3. Tourism Industry - Development of the Sector in Bulgaria

Period: Annual report 2006

Summary

Foreign tourist visits to Bulgaria

- The trend of increase in foreign tourist visits to Bulgaria continued in 2006 but with a slower pace. this is actually the lowest rate of increase for the whole 2000 - 2006 period;
- Most of the foreigners who came to our country over the review period came as tourists or holiday-makers. In 2006 their share in the total number of visits is 84.6%;
- Most of the foreigners who visited our country as tourists or holiday-makers came from EU member-states, FYR of Macedonia, Serbia and Montenegro, Russia and Romania;
- The average duration of tourist visits in hotels with bed capacity exceeding 30 beds per visitor is relatively short. In 2006 its average is 2.682 night stays;
- Some significant changes occurred in the structure of night stays by hotel categories, due to the modernization of the existing tourism base. The share of night stays at 4-star hotels is higher by 15.4 per cent points. On the contrary, there is a significant decrease of the share of nights spent in 1 or 2-star hotels - by 14.1 per cent points, and 3-star hotels - by 4 per cent points;
- German tourist lead in the standings for number of visits in 4,4 and 5-star hotels. The overall trend though shows that the number of German tourists gradually goes down. There is a significant increase in the number of Russian tourist who prefer to stay at these categories' hotels.

Tourism base

- The trend of increase of the number of beds at the hotels continued in 2006. In 2006, the hotels under review disposed of a total of 212 tho. beds. Compared to 2000, the increase is by 92 tho. or by 76.7%;
- Due to the seasonal character of tourism in Bulgaria, the hotel capacity is fully ed in only 3-4 months of the year. However, there is a trend of gradual increase of the hotels' efficiency and profitability. In 2006, there is a decrease by 1.8 per cent points on 2005 basis;
- There is permanent increase in the revenues from night's lodgings. In 2006, the revenue is around BGN 564 mln. In comparison with 2000 figures, the increase is by 3 times.

Tourism efficiency

- The trend of increasing efficiency of tourism continued in 2006, but in slower rate. Compared to 2000, the total revenue in 2006 is higher by BGN 1.7 bln or by 76.5%, while compared to 2005 the increase is by BGN 207.6 mln or by 5.4%;
- The expenditures made by Bulgarian citizens for travels abroad continue to grow. Compared to 2000 figures the increase is by 2 times, while on 2005 basis - by 11.2%;
- As a result of the fast growing expenditures made by Bulgarian citizens for international travels, there is a solid trend of decreasing the share of tourist services as part of the GDP of the country. In comparison with 2000, this share is smaller by 0.70 per cent points, while compared to 2005, the decrease is by 0.57 per cent points.

SWOT analysis

- Strengths:

- New and relatively well-established categorization;
- Good presence on the EU market;
- Bulgarian municipalities are motivated to invest in developing tourism;

- Weaknesses:

- The common practice is to provide tourist services for the average visitors emphasizing on the low-cost travels;
- Old or damaged infrastructure;
- Lack of enough qualified season workers to provide professional services;

- Opportunities:

- Development of more attractive tourist services;
- Initiating a massive advertisement campaign;
- A good prerequisites for developing a cultural tourism;

- Threads:

- An over-building danger, especially at the seaside resorts;
- Very strong competition by the neighboring countries;
- Very weak and ineffective absorption of EU funds for developing tourism.

4. POLITICAL/ECONOMIC CLIMATE

This Business Proposal has taken into consideration the following economic and political factors:

4.1. Background: Bulgaria

The Bulgars, a Central Asian Turkic tribe, merged with the local Slavic inhabitants in the late 7th century to form the first Bulgarian state. In succeeding centuries, Bulgaria struggled with the Byzantine Empire to assert its place in the Balkans, but by the end of the 14th century the country was overrun by the Ottoman Turks. Northern Bulgaria attained autonomy in 1878 and all of Bulgaria became independent from the Ottoman Empire in 1908. Having fought on the losing side in both World Wars, Bulgaria fell within the Soviet sphere of influence and became a People's Republic in 1946. Communist domination ended in 1990, when Bulgaria held its first multiparty election since World War II and began the contentio process of moving toward political democracy and a market economy while combating inflation, unemployment, corruption, and crime. The country joined NATO in 2004 and the EU in 2007.

4.2. Independence:

3 March 1878 (as an autonomous principality within the Ottoman Empire); 22 September 1908 (complete independence from the Ottoman Empire)

4.3. National holiday:

Liberation Day, 3 March (1878)

4.4. Constitution:

adopted 12 July 1991

4.5. Legal system:

civil law and criminal law based on Roman law; accepts compulsory ICJ jurisdiction with reservations

4.6. Suffrage:

18 years of age; universal

4.7. Executive branch:

chief of state: President Georgi PARVANOV (since 22 January 2002); Vice President Angel MARIN (since 22 January 2002)

head of government: Prime Minister Sergei STANISHEV (since 16 Aug 2005); Deputy Prime Ministers Ivaylo KALFIN, Daniel VULCHEV, and Emel ETEM (since 16 Aug 2005)

cabinet: Council of Ministers nominated by the prime minister and elected by the National Assembly

elections: president and vice president elected on the same ticket by popular vote for a five-year term (eligible for a second term); election last held 22 and 29 October 2006 (next to be held in 2011); chairman of the Council of Ministers (prime minister) nominated by the president and elected by the National Assembly; deputy prime ministers nominated by the prime minister and elected by the National Assembly

election results: Georgi PARVANOV reelected president; percent of vote - Georgi PARVANOV 77.3%, Volen SIDEROV 22.7%; Sergei STANISHEV elected prime minister, result of legislative vote - 168 to 67

4.8. Legislative branch:

unicameral National Assembly or Narodno Sobranie (240 seats; members elected by popular vote to serve four-year terms)

elections: last held 25 June 2005 (next to be held in June 2009)

election results: percent of vote by party - CFB 31.1%, NMS2 19.9%, MRF 12.7%, ATAKA 8.2%, UDF 7.7%, DSB 6.5%, BPU 5.2%, other 8.7%; seats by party - CFB 83, NMS2 53, MRF 33, UDF 20, ATAKA 17, DSB 17, BPU 13, independents 4; note - seats by party as of January 2008 - CFB 82, NMS2 36, MRF 34, UDF 16, DSB 16, Bulgarian New Democracy 16, BPU 13, ATAKA 11, independents 16

4.9. Judicial branch:

Supreme Administrative Court; Supreme Court of Cassation; Constitutional Court (12 justices appointed or elected for nine-year terms); Supreme Judicial Council (consists of the chairmen of the two Supreme Courts, the Chief Prosecutor, and 22 other members; responsible for appointing the justices, prosecutors, and investigating magistrates in the justice system; members of the Supreme Judicial Council elected for five-year terms, 11 elected by the National Assembly and 11 by bodies of the judiciary)

4.10 Bulgarian Economy - overview:

Bulgaria, a former communist country that entered the EU on 1 January 2007, has experienced strong growth since a major economic downturn in 1996. Successive governments have demonstrated commitment to economic reforms and responsible fiscal planning, but have failed so far to rein in rising inflation and large current account deficits. Bulgaria has averaged more than 6% growth since 2004, attracting significant amounts of foreign direct investment, but corruption in the public administration, a weak judiciary, and the presence of organized crime remain significant challenges.

GDP (purchasing power parity): Euro 86.73 billion (2007 est.)

GDP (official exchange rate): Euro 39.07 billion (2007 est.)

GDP - real growth rate: 6.1% (2007 est.)

GDP - per capita (PPP): Euro 11,800 (2007 est.)

GDP - composition by sector:

agriculture: 8.1%
industry: 31.3%
services: 60.7% (2007 est.)

Labor force: 3.44 million (2007 est.)

Labor force - by occupation:

agriculture: 8.5%
industry: 33.6%
services: 57.9% (2nd qtr. 2006 est.)

Unemployment rate: 8% (2007 est.)

Population below poverty line: 14.1% (2003 est.)

Household income or consumption by percentage share:

lowest 10%: 2.9%
highest 10%: 25.4% (2005)

Distribution of family income - Gini index: 31.6 (2005)

Inflation rate (consumer prices): 7.8% (2007 est.)

Investment (gross fixed): 27.6% of GDP (2007 est.)

Budget:

revenues: Euro 16.62 billion
expenditures: Euro 15.18 billion (2007 est.)

Public debt: 18.2% of GDP (2007 est.)

Agriculture - products: vegetables, fruits, tobacco, wine, wheat, barley, sunflowers, sugar beets; livestock

Industries: electricity, gas, water; food, beverages, tobacco; machinery and equipment, base metals, chemical products, coke, refined petroleum, nuclear fuel

Industrial production growth rate: 5.5% (2007 est.)

Electricity - production: 45.7 billion kWh (2006)

Electricity - consumption: 37.4 billion kWh (2006)

Electricity - exports: 7.8 billion kWh (2006)

Electricity - imports: 0 kWh (2006)

Oil - production: 3,661 bbl/day (2005 est.)

Oil - consumption: 108,000 bbl/day (2005 est.)

Oil - exports: 51,000 bbl/day (2005 est.)

Oil - imports: 138,800 bbl/day (2004 est.)

Oil - proved reserves: 15 million bbl (1 January 2006 est.)

Natural gas - production: 407,000 cu m (2005 est.)

Natural gas - consumption: 5.179 billion cu m (2005 est.)

Natural gas - exports: 0 cu m (2005 est.)

Natural gas - imports: 5.179 billion cu m (2005)

Natural gas - proved reserves: 5.703 billion cu m (1 January 2006 est.)

Current account balance: Euro -7.189 billion (2007 est.)

Exports: Euro 19.77 billion f.o.b. (2007 est.)

Exports - commodities: clothing, footwear, iron and steel, machinery and equipment, fuels

Exports - partners: Turkey 12%, Italy 10.4%, Germany 10%, Greece 8.2%, Belgium 6.8%, France 4.3% (2006)

Imports: Euro 28.79 billion f.o.b. (2007 est.)

Imports - commodities: machinery and equipment; metals and ores; chemicals and plastics; fuels, minerals, and raw materials

Imports - partners: Germany 15%, Italy 10.6%, Turkey 7.2%, Greece 6.3%, China 5%, France 4.9%, Romania 4.5% (2006)

Economic aid - recipient: Euro 742 million (2005-06 est.)

Reserves of foreign exchange and gold: Euro 13.8 billion (31 December 2007 est.)

Debt - external: Euro 29.29 billion (30 June 2007)

Stock of direct foreign investment - at home: Euro 20.86 billion (2006 est.)

Stock of direct foreign investment - abroad: Euro 345.8 million (2006 est.)

Market value of publicly traded shares: Euro 10.32 billion (2006)

Currency (code): lev (BGL)

Exchange rates: leva per dollar - 1.4366 (2007), 1.5576 (2006), 1.5741 (2005), 1.5751 (2004), 1.7327 (2003)

Fiscal year: calendar year

4. 11. Section Summary

As a result of the aforementioned factors, the advisable course of action for the Sofia Cinema Hotel project would be self financing at this time, with work towards investor participation at a later date. With the possibility of improvement or status quo with regard to the political climate on Bulgaria, the positive factor of the accession to EU, and the potential for a higher international investment interest, this project will shortly become even more attractive to investors. Added to these factors is the marketing power of the designed and built "Cinema Hotel" product, as opposed to a plan which exists only "on paper".

5. TIMETABLE

The breakdown of project phases will be as follows:

Design Phase 6-9 months

Bid Phase 1-2 months

Construction Phase 24 months

Project Closeout 1-2 months

In some circumstances, these phases may overlap. The intention is to achieve as much work in parallel as possible. The Cash Flow presented in Section 7 below illustrates an integrated timeframe with assumptions of overlap in certain areas. Local architectural and engineering firms will be used to ensure speedy statutory approval by the local authorities, which will occur during the Design and Bid phases.

6. ESTIMATED COSTS OF CONSTRUCTION, DESIGN AND MANAGEMENT SERVICES

Construction costs for the entire complex are estimated at approximately Euro 620,000 for the infrastructure and Euro 19 million for the building works, including all built components of the cinema complex, landscaping and parking facilities. The cost per built square meter used for this estimate is Euro 1,000, which is appropriate for a high quality hotel complex at the 5 star level and above. With a contingency factor of 5% brought into the estimate, the total construction costs are estimated in the order of 25 million Euro.

Depending on the Design, Management and Construction approach selected, as well as the conditions and scope that agreed upon, design and management services will be:

- Design services (Architectural and Engineering) : 5-7% of construction costs
- Management Services (Design and Construction): 2.5-3% of construction costs

These figures are rough and provide an initial framework only for understanding the breadth of scope possible. Final figures will be dependant on the precise services and terms agreed.

At this stage, taking the higher bracket fees for a conservative estimate, the fees will run in the order of 2 million Euro.

In total, the cost of construction bringing the project to point of handover to operations is estimated at 25 million Euro. This scenario assumes completion of all works before the start of operations. As mentioned earlier, other possibilities will be considered at detailed design and projection stage, such as phase by phase building, with operations beginning with as few as 300 beds in the hotel, next 100 beds postponed till a later point, and revenue from initial operations returned to provide for further construction costs.

7. Estimated Construction Costs

Infrastructure	
Roads	Euro 300,000
Water, electrical, telephone	Euro 160,000
On site roads + mains + electrical transformer	Euro 160,000
Total Infrastructure	Euro 620,000
Buildings	
Hotel	Euro 12,000,000
Cinema Theaters	Euro 4,850,000
Spa center	Euro 1,750,000
Garden	Euro 400,000
Pool, cafeteria, bars, surroundings	Euro 1,000,000
Tennis court and ammenities	Euro 500,000
Mini Golf course and ammenities	Euro 400,000

Landscaping and car park	Euro 500,000
Total Buildings	Euro 21,400,000
Contingency	Euro 1,070,000
Sub total	Euro 22,470,000
Design Fee 7%	Euro 1,572,900
Project Management Fee 3%	Euro 674,100
Total	Euro 24,717,000

CONSTRUCTION CASH FLOW

The figures provided in the previous section represent the total estimated expenditure for the construction of the Sofia Cinema Hotel project. This expenditure will occur over a 33 month period, as described in the project timetable. In this section we detail the project's monthly estimated cash flow. This cash flow takes into account the initial design and investigation costs, site preparation prior to building construction, and projected monthly costs during the construction phase, including expected peaks in expenditure at points of mobilization, large equipment purchases (mechanical systems, furniture etc.), and punchout and demobilization.

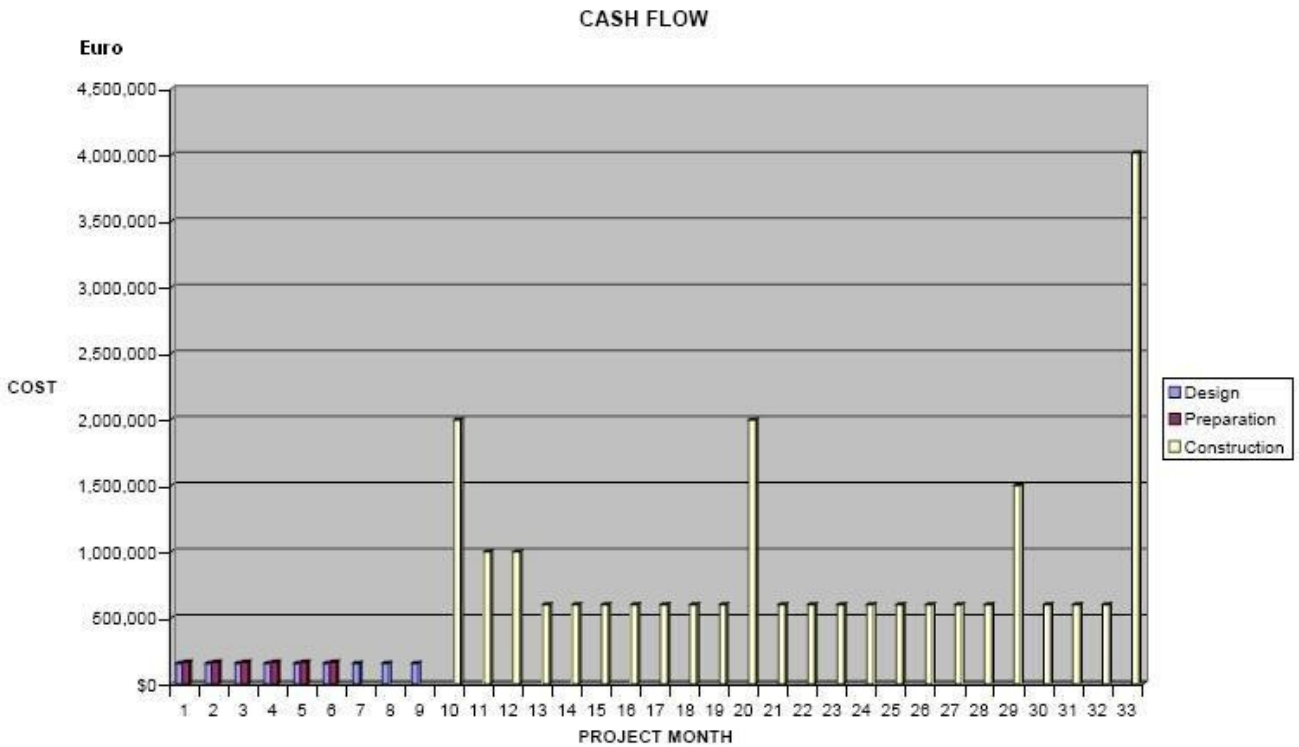
This table again assumes completion of all works before the start of operations.

Construction Cash Flow Table

Month	Design	Preparation	Construction
1	Euro 155,556	Euro 166,667	
2	Euro 155,556	Euro 166,667	
3	Euro 155,556	Euro 166,667	
4	Euro 155,556	Euro 166,667	
5	Euro 155,556	Euro 166,667	
6	Euro 155,556	Euro 166,667	
7	Euro 155,556		
8	Euro 155,556		
9	Euro 155,556		
10			Euro 2,000,000
11			Euro 1,000,000
12			Euro 1,000,000
13			Euro 600,000
14			Euro 600,000
15			Euro 600,000
16			Euro 600,000
17			Euro 600,000
18			Euro 600,000
19			Euro 600,000
20			Euro 2,000,000
21			Euro 600,000
22			Euro 600,000
23			Euro 600,000
24			Euro 600,000
25			Euro 600,000
26			Euro 600,000
27			Euro 600,000
28			Euro 600,000
29			Euro 1,500,000
30			Euro 600,000
31			Euro 2,950,000

32			Euro 600,000
33			Euro 1,667,000
Total	1,400,000	1,000,000	24,717,000

CASH FLOW CHART



8. ANNUAL OPERATIONAL PROJECTIONS

Section 8 of our Business Proposal presents an operational outline for the Sofia Cinema Hotel Project.

The preliminary feasibility figures below show projected returns over a ten year period, with a lump sum loan repayment at the end of Year 10.

The driving force of this project based on the current trends in tourism is the Hotel and its facilities, with cinema-junkets providing the mainstay of cinema profits. In the near future (most likely by the time that the hotel is operational), the major component will become the cinemas, with a high-roller attraction factoring the hotel as a secondary function.

The projections below rely on the current state of affairs and show the necessary profits for making this an attractive project with a solid return. Future expansion of the cinemas revenue will make profitability significantly more impressive. In order to provide a conservative projection, only the current state of affairs is reflected.

Project Name	Sofia Cinema Hotel
Site	10,000 square meters of land property located near Vrana Palace, Sofia, Bulgaria
Capacity	400-room hotel and cinemas

Project Time Schedule	Approximately 36 months
Total Project Cost Land + Building	Approximately 25 million Euro
Funding	25 million Euro loan for 10 years with minor annual interest and ten years grace. Full loan is to be paid in one instalment at the end of the grace period
Product Profile	<p>The Sofia Cinema Hotel project will include 400 deluxe rooms and suites in the main building; park/garden area, within the complex site; sport complex which will be positioned as the market leader in the Bulgaria/Sofia tourism product.</p> <p>It is an amalgamation of various needs with a deluxe standard. The pricing policy, excluding the first year of operations, will therefore be one of a market leader with features such as first to announce, the highest for each market, product differentiations, market segmentations, etc.</p> <p>Primary market segments are: first class cinema rooms, business and corporate business, congress-conferences-meetings (CCM), Hollywood movies launch organisations, weddings, product launch organisations, individual cinema maniacs segment, cinema-junket-tours, senior citizen long stays, and time-share unit guests.</p>

PRELIMINARY FEASIBILITY FIGURES

Assumptions:

- All occupancy rates and pricing levels meet industry standards, and would only be improved by changes of circumstance as outlined in Section 4 above.
- Our baseline estimate of sixty (80) Euro per room night is a conservative estimate of the market price given the market leader niche of the complex as outlined in the Product Profile above.
- The operational forecasts developed are based on:
 - 50 rooms are allocated to the Cinema Complex throughout the year with a 30.- Euro/room/BB/DBL-SNGL price basis. This is conservative and below industry standard (see comparison table below)
 - 250 rooms are reserved for wholesale and retail marketing at 80.- Euro / Room / BB. This equates to 40.- Euro / pp / dbl / HB, well below the 60.- Euro/pp/dbl/HB average of other hotels, and therefore a conservative estimate based on industry standards.
- 60 percent all year round occupancy is aimed.
- 70 percent of 250-room-capacity is aimed to be marketed on HB/room basis through distribution channels (travel agencies and tour operators), and 30 percent of 250-room-capacity is aimed to be sold directly on BB/room basis.
- Marketing will also gear towards the corporate sector at a rate of 45.- Euro / Room / BB. This also is conservative and below industry standard (see comparison table below)
- Operation cost (including F&B) is aimed to be 35 percent of revenues.
- Hotel Management agreement is based on 3 percent turnover/revenues and 10

percent GOP.

- Refurbishment reserve fund is 3 percent of the turnover/revenues and every 5 years 10 percent of total investment is to be spent. Building materials will be chosen according to climatic conditions to ensure minimal refurbishment needs.
- Initial Cinemas Investment as appears in estimated costs (Section 6): Euro 4,850,000.-
- Construction/Furnishing Fittings & Equipment/Interior/Uniforms, etc., Euro 2,000,000.-
- Cinemas Equipment: Euro 2,400,000.-
- Camera System: Euro 150,000.-
- Limos & Cars & Midibus: Euro 300,000.-
- The following items are not included in these projections and will be estimated at detailed program development stage:
 - Sport Complex operation costs and revenues
 - Food and Beverage (F&B) revenues
 - Congress -Conferences-Meetings (CCM) costs and revenues
 - Time-share sales costs and revenues

Current figures for similar hotels operating in the area:

Hotel	Entertainment Area (Restaurants, Casino, others)	Rooms	Rates (*) Euro HB/dbl/pp	Occupancy (%)	Entertainment/ T (%) (**)

(*) Rates are based on half board per person on double occupancy in a room in D.

(**) Total Business received from entertainment operation vs tourism operations.

Financial Data - Hotel functions

(1) Cinema Guests:

a) Revenue

50 rooms x 365 days x 100% occupancy = 18,250 room-nights
 x Euro 50
 Revenue = Euro 912,500

b) GOP = Revenue - Room costs (Room costs = 10% Revenue)

= Euro 912,500 - Euro 91,250 = Euro 821,250

(2) Hotel Guests:

250 rooms x 365 days x 60% occupancy = 54,750 room-nights

a) Revenue from 70% allotment for travel agencies & tour operators HB guests

70% x 54,750 room-nights = 38,325 room-nights
x Euro 70
Revenue = Euro 2,682,750

b) Revenue from 30% allotment for rooms sold directly to BB guests

30% x 54,750 room-nights = 16,425 room-nights
x Euro 60
Revenue = Euro 985,500

c) Total Revenue from Hotel guests

Euro 2,682,750
+ Euro 985,500
Total Hotel Guests Revenue = Euro 3,668,250

d) Operating Costs = 25% Revenue

= 25% x Euro 3,668,250 = Euro 917,062

(3) Total GOP from All (Cinema & Hotel) Guests:

a) Cinema GOP (50 rooms) = Euro 821,250

b) Hotel GOP (250 rooms)

= Hotel Revenue - Operating Costs
= Euro 3,668,250 - Euro 917,062 = Euro 2,751,188

Total GOP = Euro 821,250 + Euro 2,751,188 = Euro 3,572,438

(4) Turnover = Total Revenue from All Guests:

a) Cinema Guest Revenue (50 rooms) = Euro 912,500

b) Hotel Revenue (250 rooms) = Euro 3,668,250

Total Turnover = Euro 912,500 + Euro 3,668,250 = Euro 4,580,750

(5) Hotel Management Fees = 3% Turnover + 10% GOP

= 3% x Euro 4,580,750 = Euro 137,422
+ 10% x Euro 3,572,438 = Euro 357,244

Hotel Management Fees = Euro 494,666

(6) Adjusted GOP #1 (GOP less Management Fees)

= GOP - Management Fees
= Euro 3,572,438 - Euro 494,666 = Euro 3,077,772

(7) Adjusted GOP #2 (Adjtd GOP#1 less refurbishment costs)

= Adjusted GOP #1 - Refurbishment
(Refurbishment = 3% Turnover)

= Euro 3,077,772 - Euro 137,422 = Euro 2,940,350

Adjusted GOP #2 Hotel is taken to be Euro 2,940,350 per year.

Financial Data - Cinema functions

(8) Cinema GOP: Euro 360,000

a) Turnover Euro 1,800,000

b) Costs

Personnel Euro 180,000

Movie Rights Euro 500,000

Marketing Euro 400,000

Other Euro 360,000

Turnover Euro 1,800,000

Costs Euro 1,440,000

GOP Euro 360,000

(9) Adjusted Cinema GOP: 180,000

Turnover Management Fee (5%) Euro 90,000

GOP Management Fee (30%) Euro 108,000

Total Management Fee Euro 198,000

GOP Euro 360,000

Total MF Euro 198,000

Adjusted GOP Cinema is taken to be Euro 162,000 per year

Adjusted GOP #2 Hotel + GOP Cinemais taken to be Euro 3,102,350 per year

GOP - Rent Restaurants and Shops 7 000 m2 x 150 Euro/per m2/per year = 1,050,000 per year

Total adjusted GOP = 4,152,350

RETURN ON INVESTMENT

A. Year	B. Loan	C. 5% interst	D. GOP	E=D+G	F. 4% deposit	G=E+F
1	25,000,000	1,250,000				
2	26,250,000	1,312.500				
3	27,562,500	1,378,125				
4	28,940,625	1,447,000				
5	30,387,656	1,519,000	4,152,350		166,094	4,318,444
6	31,907,038	1,595,000	4,152,350	8,470,794	338,831	8,809,625

7	33,502,389	1,675,000	4,152,350	12,961,975	518,479	13,480,454
8	35,177,508	1,758,000	4,152,350	17,632,804	705,312	18,338,116
9	36,936,383	1,846,000	4,152,350	22,490,466	899,618	23,390,084
10	38,783,202	1,939,000	4,152,350	27,542,434	1,101,697	28,644,131
11	40,722,362	2,036,000	4,152,350	32,796,481	1,311,859	34,108,340
12	42,758,480	2,138,000	4,152,350	38,260,690	1,530,427	39,791,117
13	44,896,404		4,152,350	43,943,346	1,757,738	47,458,943

NOTE:

GOP of the operation receives 4 percent interest annually throughout nine years

Return is on Euro 25,000,000 Euro finance for hotel construction

Total loan approx. Euro 25,000,000.

Loan return possible by 7 - 13 years within the conservative assumptions listed above, dependent on loan structure and conditions.

This return on investment is based upon conservative assumptions and contains built-in safeguards. The above figures taken on their own show a return on the 13 year loan, although the loan may be returned within the abovementioned 7 year period. In addition to this the items not included in the projections (sport complex, food & beverage, timeshare revenues) will provide further real profit above and beyond the loan repayment.

9. Project Team

10 . Project Designs

10.1. Park Avenue Design

Design Style
- Contemporary

Whether Traditional, Art Deco or a mixture of design styles, Sofia Cinema Hotel's theaters have been known to bring back the glamour and excitement of the old time movie palaces. The Park Avenue Theater represents an effort to project the same excitement and elegance of old time movie palaces through a more contemporary design language.

The glamour is still conveyed by the iconic murals of Katherine Hepburn and Marlon Brando on the foyer and powder room walls. The lighting is still a key design elements in enhancing the sense of escape. However, furnishings are sparse, lines are clean and the overall effect is a nod to minimalism.





10.2. Rialto Design

Design Style

- Thematic







10.3. Village of Lormarin Design

Design Style
- Thematic

This themed wing of a rural French village, replicated in its cobblestone paths and stone walls and wooden doors, and infused with the interests and collections of the homeowner, is a connoisseur's delight. This new-old version of rural France in coastal California contains a cigar shop, a wine shop, a toy store a stationary shop for a pen collection, even a grocery store and public restrooms-not to mention and elaborate elegant theater.

Venture down the cobblestone ways and you're in a French country village, complete with views of a village through a gate. Stroll past the water-fountain statue and the theater marquee, and a toy train may chug past and into the toy store next door.

Turn down the hall to find stone wall facades and aged wooden and wrought iron entrances to the stationary, the cigar shop with a magazine rack in front, the wine shop, bank and grocery.





10. 4. Sofia Cinema Hotel Rooms



10. Lobby Designs

