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**PRAMEN ZDRAVÍ  
KARLOVY VARY s.r.o.**

do Obchodního rejstříku zapsán u KS v Plzni  
oddíl C vložka 15715

IČO: 263 67 769  
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UniCredit Bank CS.  
č. účtu: 63460004

Zastupuje:  
Nikolay Semenov  
jednatel společnosti

# THE INVESTMENT AND COMMERCIAL OFFER



**Czech Republic, Karlovy Vary, 2017.**

## MEMORANDUM OF CONFIDENTIALITY

This offer is provided on consideration on a confidential basis only for decision-making on financing or purchase of the project and cannot be used for copying or any other purposes, and, also, be transferred to the third parties.

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All data, estimations, plans, offers and conclusions given in this project, concerning its potential profitability, volumes of realization and expenses, are based on the consensuses of participants of this investment project development group. Auditor or special verification of the data was not made.

Signatures of the parties:

From the Initiator:

From potential partners:

\_\_\_\_\_/N. Semenov/

\_\_\_\_\_/\_\_\_\_\_/

## TABLE OF CONTENTS

1	The offer for the investor/buyer .....	4
2	Safety of the investments .....	5
3	Project summary .....	7
4	Background and the main idea of the project .....	8
4.1	Project description .....	8
4.2	Construction site and implementation of the project .....	8
4.3	Project history .....	10
4.4	Prices .....	12
5	Marketing concept .....	12
5.1	Marketing. Features .....	12
5.2	Demand on the Internet .....	13
5.3	Stages of the project implementation .....	15
6	The planned nomenclature of the real estate objects .....	16
6.1	Sales .....	18
7	Economical assessment and risks .....	18
8	Appendix: feasibility study of the project (3 possible scenarios)	

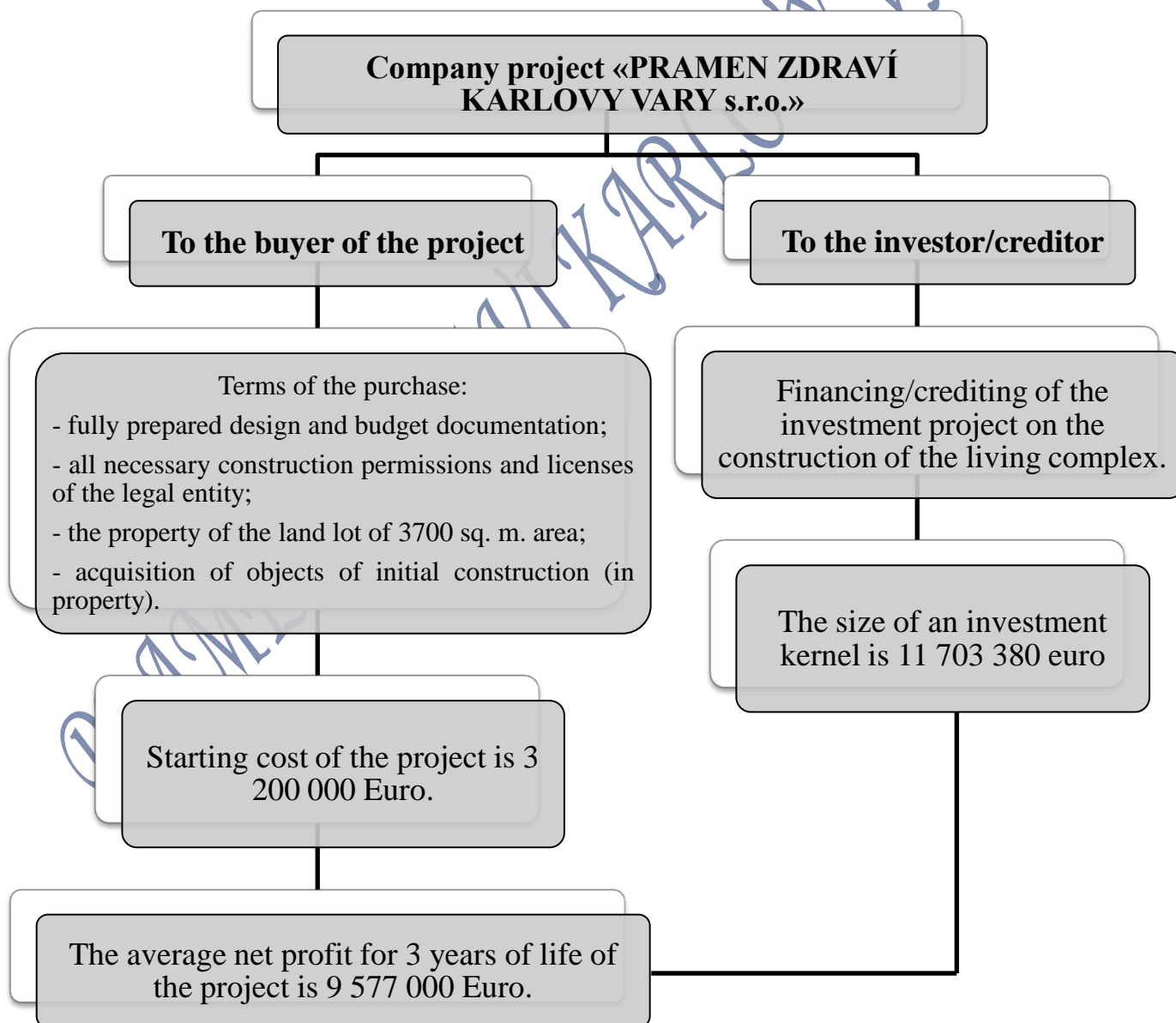
## 1. THE OFFER FOR THE INVESTOR/BUYER

Dear sirs!

Company «PRAMEN ZDRAVÍ KARLOVY VARY s.r.o.» is honored to invite you to be the unique investor/creditor (buyer), or to enter the consolidation of the investors/creditors/buyers for the purpose of implementation of the investment project which task consists of construction of a modern luxury housing estate with the subsequent sale of living apartments, objects of commercial realty estate and parking spaces on the territory of Stara Kisibelska street of the city of Karlovy Vary.

The project has a lot of prospects for successful realizations which follows from market condition of the Czech Republic, the detailed analysis of development prospects in the construction segment, market research and the feasibility study calculating 3 possible scenarios of project implementation.

We offer following options of cooperation:



## 2. SAFETY OF THE INVESTMENTS.

Preconditions for the completely safe, effective and profitable financing of the offered project are the following characteristics of the initiator company and the business idea:

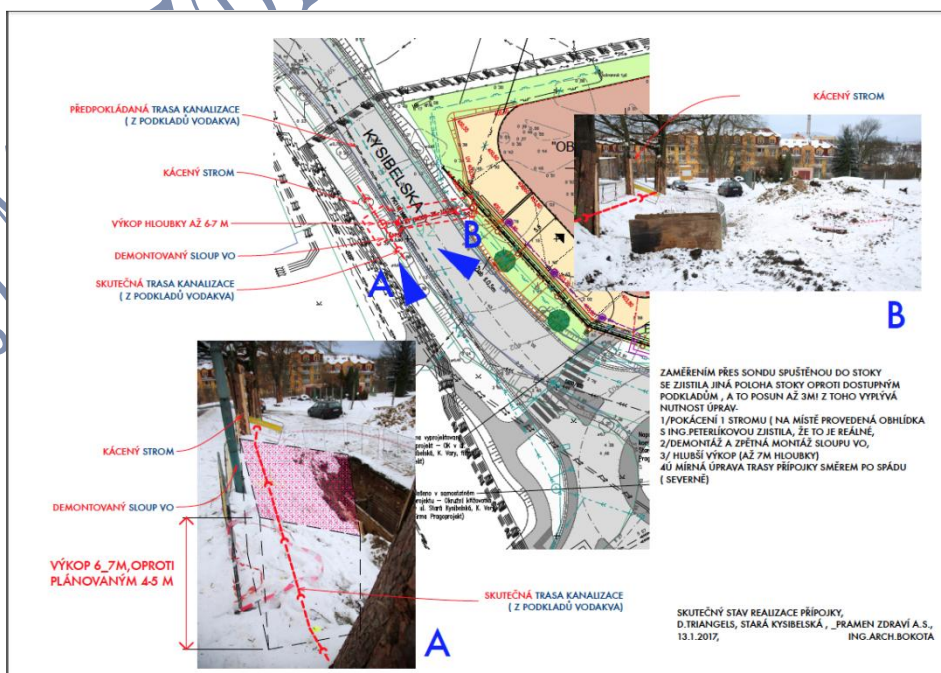
- the project is completely material;
- the term of activity of the initiator company and work on the project already make about 13 years;
- the initiator company has in a property the land lot in the territory of 3 700 sq.m. area near Stara Kisibelska str. in the city of Karlovy Vary
- the initiator company carried out all the preparatory construction works by total cost about 2 000 000 Euro (construction of the roundabout of a road outcome, electric power supply to the building site, gas pipeline leading to the building site, carrying out the optic fibers and telephone lines, the heating and water system supply, all technical construction works on the land lot, etc.);
- there are all necessary licenses and permissions for carrying out construction works and sale of the realty estate objects;
- design and budget documentation were developed by one of the most qualified among Czech companies "Bokota Bursik";
- auditor estimation of the property cost was carried out by the authoritative firm CUSHMAN & WAKEFIELD and was determined as 1 200 000 Euro;
- there are contracts of intent with a number of the major realtor companies which purpose is to increase the volumes and speed of the sales of the estate objects presented in this project;
- the initiator company has no any encumbrances, credits and debts to the state governments, private structures and the working personnel;
- the initiator company has a very experienced group of professionals with long-term experience on direct and active sales;
- photos of the property presented in the project are available:







PRAHA



Work on sewerage laying (to a photo from 1/14/2017)

### 3. PROJECT SUMMARY.

Project name: The investment project of «the Double Triangle» («Double Triangle») housing estate construction in Karlovy Vary, the Czech Republic.

Name of the initiator: «PRAMEN ZDRAVÍ KARLOVY VARY s.r.o.».

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Responsible for the implementation of the project: Nikolay Semenov.

Project essence: construction of a modern, luxury housing estate with the developed infrastructure, consisting of the living apartments, zone for commercial objects, basement warehouses and parking spaces in the city of Karlovy Vary, Stara Kisibelska street, the Czech Republic.

Purposes and tasks of the project:

- construction of the modern housing estate consisting of two buildings (8 and 11 floors), connected with gallery transition at the 7th floor level;
- satisfaction of the standards and requirements of the population in qualitative and inexpensive apartments of the class "Luxury";
- creation of the modern complex which would be harmoniously entered in the historical district of the city;
- creation of new objects of profitable real estate;
- significant profit from the active sales the of realty estate objects.

Features of implementation of the project:

Financing sources: means of the investor/creditor or buyer of the project.

The total cost of purchase of the project is 3 200 000 Euro.

Total investment for the full construction is 11 703 380 Euro.

Indicators of efficiency of the project:

Indicator	Optimistic scenario	Realistic Scenario	Pessimistic Scenario
Annual interest rate	4%	8%	10%
NPV	11 381 000 EUR	5 963 000 EUR	3 394 000 EUR
IRR	51%	31%	19%
PP	1 year	2 years	2,5 years
DPP	1 year	2 years	2,5 years
PI	1,82	1,61	1,27
Net profit for 3 years of the project	13 282 000 EUR	8 845 000 EUR	6 604 000 EUR

**Thus, the investment project of a housing estate «the Double Triangle» («Double Triangle») construction in Karlovy Vary, the Czech Republic on all indicators of the investment analysis is profitable, safe and can be recommended for the realization.**



## **4. BACKGROUND AND MAIN IDEA OF THE PROJECT**

### **4.1. Project description**

The idea of the investment project on the construction of a housing estate «the Double Triangle» in Karlovy Vary came from analyzing tendencies, conditions and prospects of the development of the modern market in segments of construction and realty trade of realty in the Czech Republic.

Considering long-term experience of the initiator company in the sphere of the construction works management and active sales of the realty estate objects, the main and priority vectors of its development activity are:

- sale of the completed project with the object of own real estate;
- construction of a housing estate according to the existing design and budget documentation on own land lot at the expense of means of the investor/creditor;
- or implementation of the project by own forces at the expense of attraction of means of shareholders - future owners of real estate objects.

### **4.2. Construction site location and implementation of the project.**

The investment project was recommended for realization in Karlovy Vary, Stara Kisibelska street, the Czech Republic.



*General view on the city of Karlovy Vary (center)*



Main indicators and characteristics of this region are listed the following table:

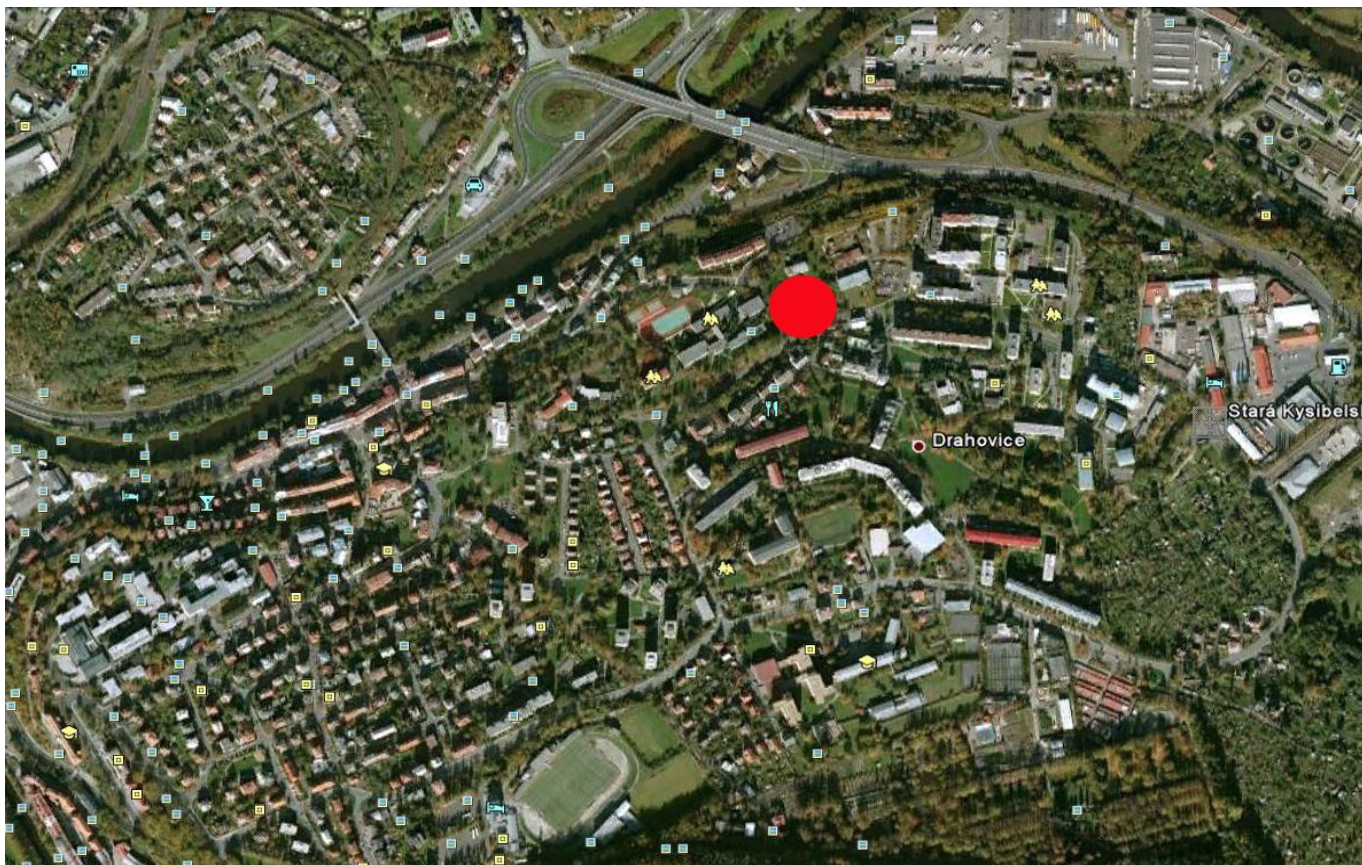
№	Indicator	Karlovy Vary
1	Population	56 000
2	Time zone	UTC+1
3	Postal code	360 01
4	Climate	Moderate continental
5	Mid-annual temperature	+11°C
6	Level of a construction segment development	high
7	Business investment highness	Positive
8	Image of the city	One of the most favorable cultural and tourist center in the Czech Republic
9	Level of the real estate trade	High
10	Competitive environment	Average
11	Consumer activity	High
12	Population standard of living	High
13	Share of foreign citizens constantly living in the city	9%

The region choice for the project implementation is caused by the following major factors:

- rather low cost of the construction of 1 sq.m with a high price level of realization;
- high activity of local population in purchases of new realty estate objects;
- a constantly growing demand in living estate among foreign visitors of Karlovy Vary;
- high growth of the development of business and services in the tourist segment, based on unique resort factors: existence of a number of the curative mineral sources, rich historical architectural base that, in turn, gives additional incentive to the development of a profitable housing segment;
- perfectly developed logistic infrastructure of the city and the whole region;
- possibility of the optimization of construction expenses within participation in investment state programs and European Union programs;
- the construction site is situated in several minutes' walk from the city center
- way time on the car from the airport to a building site - 10 minutes;
- social objects such as kindergarten, school, gymnasium, main city hospital, grocery supermarkets, furniture stores, bathroom equipment and electronics shops, hunting and jeweler shops, wine shops, motor work houses are situated directly near the area of the future complex;
- support of this investment project is proposed by the municipal management of Karlovy Vary.

According to the existing Certificate of a property, the construction site is located in the territory in the area 3 700 sq.m and has the following coordinates: 50°14'13.49" With 12°53'27.20".

The satellite view of site is on the following picture:

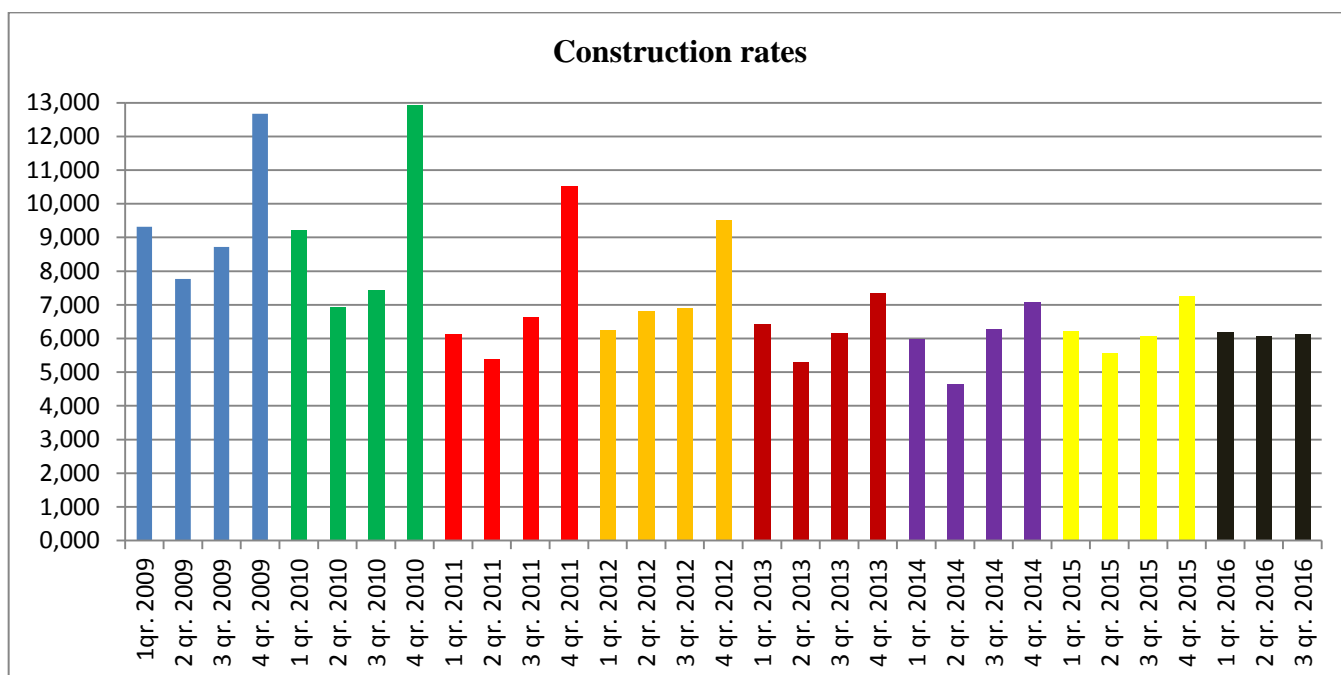


*Location of the construction site (2 km from the historical city center)*

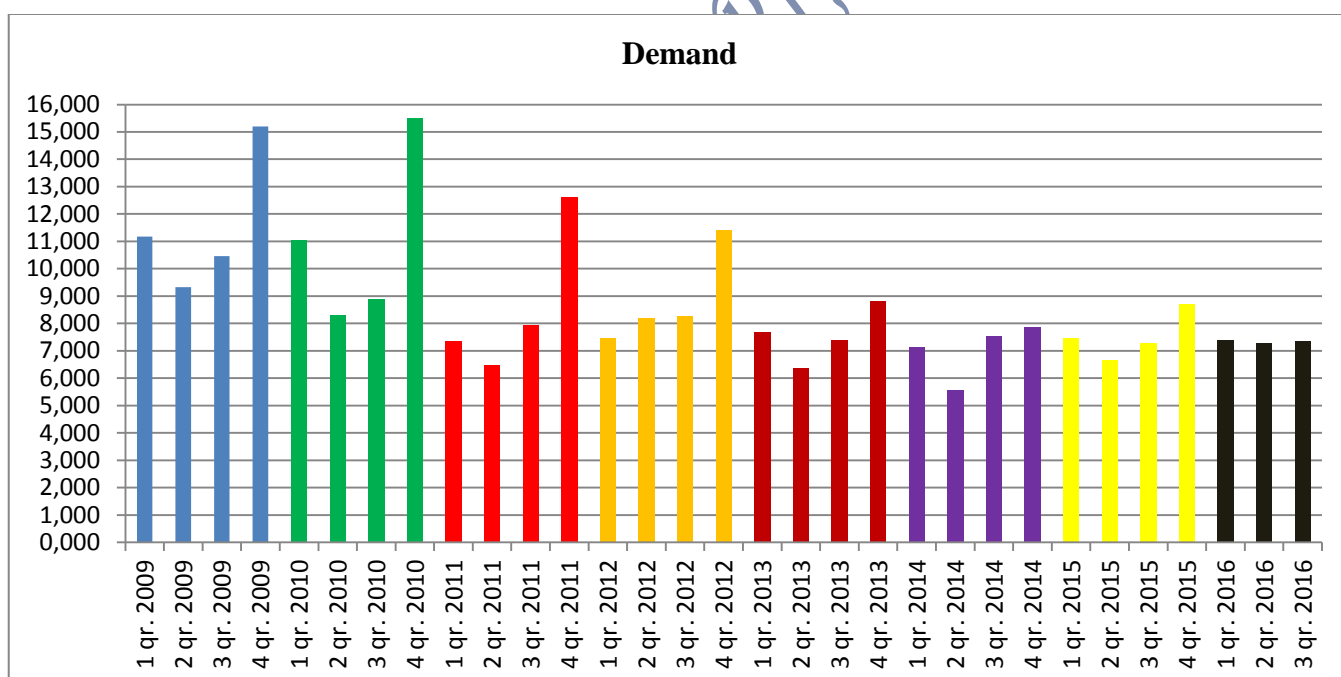
**These factors guarantee organic inclusion of the planned housing estate in the city infrastructure and a great demand on the living, commercial and parking spaces of the object.**

#### **4.3. Project history.**

In recent years the realty estate segment in the Czech Republic was in dense dependence on the development of tourist, industrial and production sectors of the economy, a variety of bank products and mortgage lending, on the one hand, and constantly increasing consumer activity, with another. On the chart below we observe statistics of the construction volumes in the Czech Republic in recent years:



Thus according to official data for the same periods, demand for the living property in the Czech Republic had the following picture:



Analyzing data, we assume that the true market capacity equals 20 % !

The idea of the project implementation came from a huge deficiency of the available living property on the internal market in the Czech Republic in addition with the constant growth of the demand for such property within the number of the governmental programs directed on development of country infrastructures in next 20 years.

Assuming all features of the project, property market capacity in the Czech Republic and estimation of the number of the potential buyers, the minimum plan of this business idea is to reach the break-even point by the 1<sup>st</sup> year of the project realization. And that is absolutely adequate and feasible program!



#### 4.4. PRICES

The consumer activity of both domestic and the foreign consumers is constantly increasing on the internal market of living estate in the Czech Republic.

One of the main objectives of the project is the formation of the most optimum and harmonious estimate of 1 sq.m of living area which will allow to satisfy possibilities of the vast majority of potential clients.

Rough settlement data (the starting/initial prices), proceeding from the 3rd scenarios of success are provided below:

Cost of 1 sq. m.	Optimistic scenario	Realistic Scenario	Pessimistic Scenario
Apartments	2000	1700	1600
Commercial Area	2200	1900	1800
Parking place	1300	1250	1100
Prime cost of 1 sq. m.			
Apartments	466	467	467
Commercial Area	601	602	602
Parking place	603	604	604

#### 5. MARKETING CONCEPT.

##### 5.1. MARKETING FEATURES.

Together with the increase of demand for residential realty estate on the internal market in the Czech Republic consumers' requirements for the quality of living apartments are increasing and the variety of architectural and design offers is necessary. The firms offering the widest choice of variations have the greatest advantage because the variety of color scores and different apartments plans in aggregate with modern design is important.

That's why at the creation of marketing policy of the project implementation it is necessary to distribute accents in favor of the following vectors:

- flexible individual approach to each client;
- wide range of architectural and design solutions of the apartments;
- competitive prices (in the middle price segment);
- optimization of business and productions processes for the purpose of prime cost reduction for a square meter of the realty area;
- usage of modern and non-polluting materials and technologies during construction process;
- active proposing of a housing estate on the internal and external markets;
- creation of the branched-out international realtor network;
- constant increase of the positive feedback from loyal clients among final buyers of the property;
- providing the greatest possible additional services, such as house-hold service of apartments, protection alarm systems, installation of the additional equipment, implementation of non-standard decisions etc.

## 5.2. DEMAND ON THE INTERNET

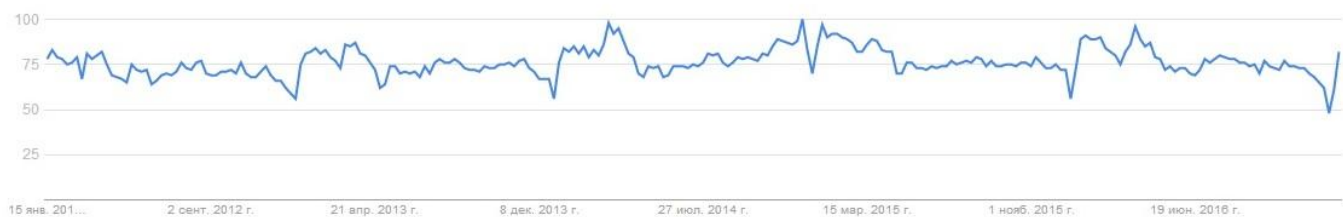
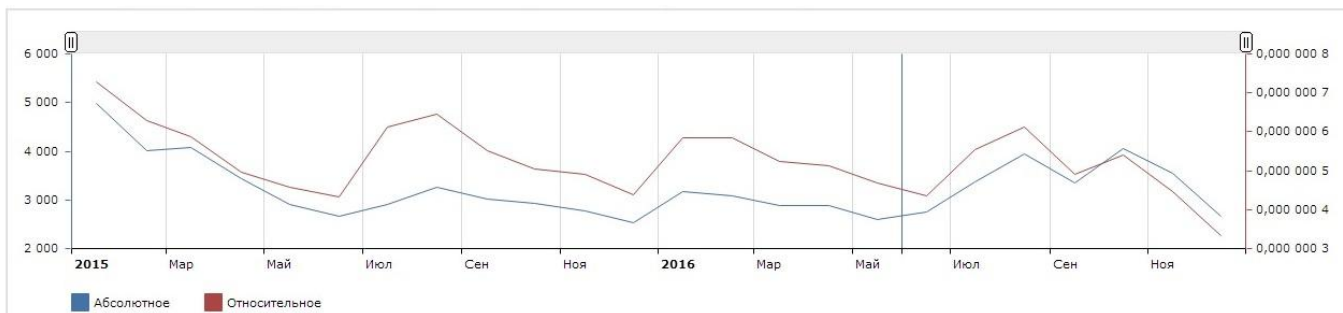
Growth rates of demand for real estate objects on the Internet exceed growth of the offline market in several times. The reason for that - set of factors of the realty estate market progress and a whole and high-quality and quantitative development of the Internet all over the world.

The general increase of the demand caused development of all Internet area of the property market: since the end of 2003 and at the present moment a huge set of new internet sites appeared and many companies which did not have their own domains in the network are now working hard to get them. Sites are getting better all the time. Besides constant improvement of the design and convenience, the companies spend a lot of resources to keep their data and price lists up to date also providing novel information on special offers, advertisements and sale-activities.

Also there was a number of useful services intended to involve the visitor and to help to make a choice. They offer councils of experts, prepare special questionnaire forms and offers, provide possibility to learn cost and to reserve or rent an object, or to get a discount coupon via the web-site.

According to the most modest estimates the demand in a network for the last year has grown by 100 %. Such conclusion follows from the analysis of inquiries in leading search systems. The Internet is now used as an ultimate informational tool: users by means of a network choose objects, study it, carry out the price analysis, choose the seller, sharing their opinion, etc. **That is why it is essential to state priorities in favor of the massed Internet marketing for the project successful implementation.**

Studying dynamics of the demand among Internet users we received the following statistics for search inquiries on keywords (according to Yandex (upper picture) and Google (down picture, the vertical axis values are in 1000 units)).



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### 5.3. Stages of the project implementation

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Preparatory work on the construction site									
Works on laying communications to the building site									
Accession of sewerages, heating, water supply, gas, electricity									
Construction of the round-about and transport circuits									
Construction works of the living estate complex and infrastructure development									
Start of the presales and sales									

PRAMEN ZDRAV

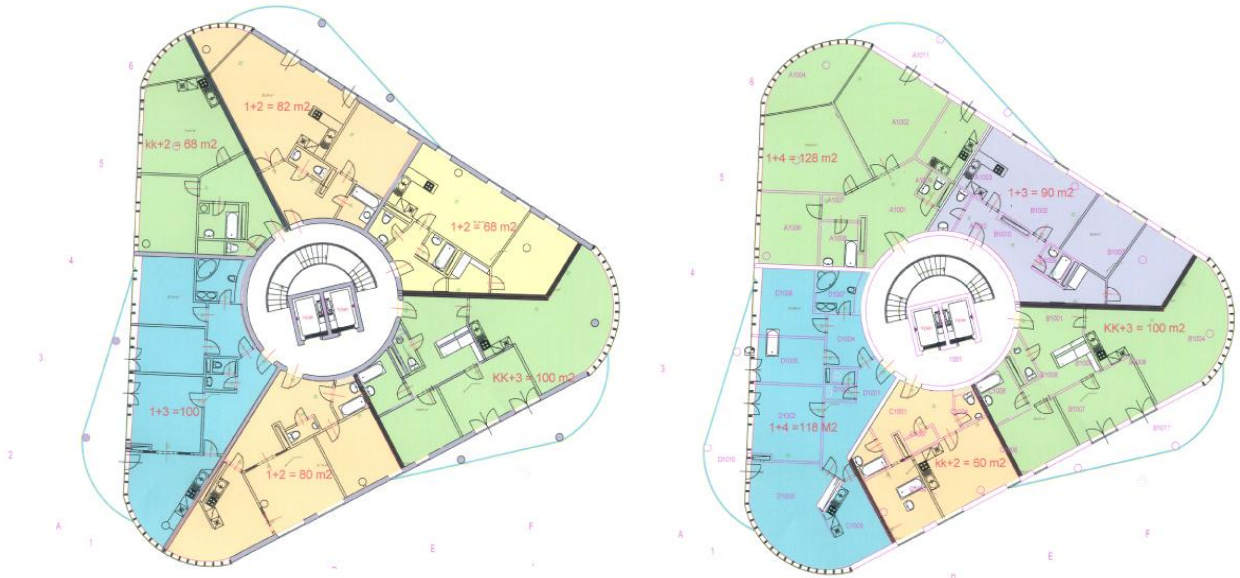
## 6. The planned nomenclature of realty estate objects.

General data on the project	
Name	Data
Land lot area	0,37 hectares
Rights to the land lot	In private property
Type of the object	Housing living estate
Total area of the object	16 203 sq. m.
Premises	9 548 sq. m.
Commercial rooms	656 sq. m.
General zones	2 028 sq. m.
Penthouses	1 000 sq. m.
Parking places	3 971 sq. m. (139 places)

3D modelling of a «Double Triangle» complex:



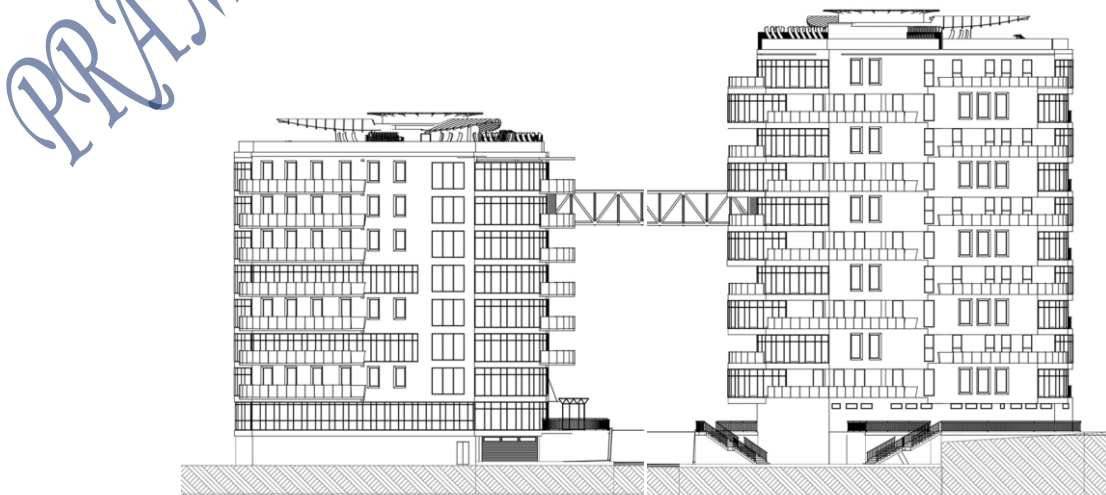
## Floors schematic lay-outs:



## Floors schematic lay-outs with penthouses and the situational plan:



## Architectural and design decisions:





## **6.1. Sales.**

Realty estate objects will be realized through both proven and new adjusted sales channels by involving realty companies and the main consumers in the corresponding segment of the market which are:

- Private buyers;
- Business companies.

## **7. ECONOMIC ASSESSMENT AND RISKS.**

The investment project is effective as in case of a net profit, as for an internal profit rate which exceeds the markets average value.

Results of the carried-out researches allow to allocate the following positive sides of the project:

- the investment project can be assumed as highly effective, with value of VSD (IRR) reaching 19 % that is much higher than a market average rate of profitability for pure (cleared of taxes) cash flow;
- project payback period (average) - 2 years.

Main disadvantages of the project:

- the project is developed under conditions of the stagnant market - analysts expect a rise in prices for construction materials; however, it is difficult to specify exactly when such period will come;
- though the project is characterized with the extremely favorable location, some relationships with the authorities of the country and the region in particular might be stressed.

In the course of the project implementation various risks are possible. They can be classified as follows:

Juridical risks connected with imperfection of the local legislation system, indistinctly issued documents, double treatments of the regulations.

Measures to decrease such risks:

- Accurate and precise formulation of the relevant articles and documents;
- Attraction of the experts having practical experience in paperwork, licensing and other formal activities and documents obtaining.

Marketing risks are connected with possible delays of an exit to the market, errors in marketing strategy, mistakes in pricing policy.

They result in lack of income for credits repayment and impossibility to realize objects in the necessary value terms.

Result of their manifestations are:

- Planned capacity cannot be reached;
- The work cannot be executed in time.

Measures to decrease the marketing risks:

- Correct orientation to the category of buyers, precise definition of strategy on the market, the most exact calculation of market capacity;
- Completed system of customer acquisition, flexible system of discounts delivery;
- Well-timed start of the sales.

### Financial risks

- Economic instability in the country;
- Inflation;
- Current situation of non-payments in the branch;
- Deficiency of budgetary funds.

As the reasons for financial risks of the project it is possible to call the following:

- Political factors;
- Exchange rates fluctuations;
- State regulation of a discount bank rate;
- Growth of resources cost on the financial market;
- Increase of expenses during implementation of the project.

Factors listed above can lead to growth of an interest rate and pricing instability on the market.

Following factors may lead to the resources shortage for the borrowed capital:

- Prices reduction within the country;
- Weakness and instability of economy;
- Illiterate management of financial policy;
- Budget deficit, inflationary rise in prices.

Measures required to decrease financial risks should include:

- Attraction of the qualified experts to development and implementation of the project
- Careful development and documents preparation on the interaction of the parties taking direct part in the project implementation, and also on the interaction with the involved organizations.

- Development of scenarios in case of the emergency economical situation.

The risks connected with implementation of the project. Major factors of risk according to the project:

- New competitors appearance;
- Rise in prices for utilities, materials, raw materials, etc.

The main option to decrease risks in case of their emergence is an accurate costs monitoring of the project.

The chances of risks connected with the project are presented in the table below. The probability of various risks approach is estimated by the following scale:

- 0 – 20% completely insignificant;
- 20% - 50% mostly unlikely;
- 50 – 75% difficult to determine the event probability;
- 75 – 95% - most likely;
- 95 – 100% - high probability.

The total risk of this investment project is estimated as below an average level.

Risks	Negative consequences	Assessment, %
<b>1. Financial</b>		
Instability of demand according to an emergence of the new competitors	Reduction of sales volumes	60
Reduction of prices by competitors	Reduction of prices	5

Growth of taxes	Profit reduction	20
Insolvency of consumers	Reduction of sales volumes and decrease of profit	30
Rise in prices for the necessary resources in the operational activity	Decrease of profit	50
Lack of own current assets	Loan funding increase	2
<b>Total on financial risks</b>		<b>167</b>
<b>Average % of risk</b>		<b>27,8</b>
<b>2. Social</b>		
Relation with local authorities	Additional expenses on the implementation of the state requirements	5
Personnel qualification	Poor quality of works	10
<b>Total on social risks</b>		<b>15</b>
<b>Average % of risk</b>		<b>7,5</b>
<b>3. Technical</b>		
Fast amortization of mechanisms and equipment	Volume reduction of provided services and profit	0
Insufficient reliability of mechanisms and equipment	Increase in breakdown rate, decrease in quality provided services	7
Lack of a capacity reserve	Impossibility of a covering peak demand	2
<b>Total on technical risks</b>		<b>9</b>
<b>Average % of risk</b>		<b>3,0</b>
<b>Total</b>		<b>191</b>
<b>Average % of risk</b>		<b>17,4</b>

The investment project is economically feasible and can be realized as it has all preconditions for practical implementation. The realization plan presented by the initiator company successfully combines high financial performance, stable high speed of construction and further realty object sales and moderate risks.