

Activity report of Madara Europe AD

under article 32, para1, item 2 of Decree N 2

The present annual activity report of the company represents comments and analysis of the financial statements and other essential information about the financial position and performance of the Company which comprises one year period from 1st of January 2013 to 31st December 2013.

The company adheres and applies in its activity the corporate practices and internationally recognized standards for good corporate governance, quoted in the National Code for corporate governance. In that respect, at a meeting held on the 15.12.2009, the Board of Directors of the company (having previous name „Mayfair Group” AD) adopted a Programme for good corporate governance.

I. General information about „Mayfair Group”AD

„Madara Europe” AD is a joint stock company having its seat and address of management: Varna 9002, 82, Kniaz Boris I blvd., floor 2, registered in the Commercial Register of the Registry Agency with UIC 200341288.

The company has one-tier management system.

Members of the Board of Directors of the Company are:

- Rainbow Malta (Holdings) Limited, represented by Mr. Paul Riley;
- Scott James Perkins
- Lujdmil Vladimirov Gachev

The company is **represented** by the Executive Director Rainbow Malta (Holdings) Limited, a Maltese foreign legal entity, represented by Mr. Paul Riley;

Share capital of the company: 50 000 leva.

Number of shares: 50 000 ordinary shares, dematerialized, registered, entitled to vote, of nominal value 1 lev each.

The company has not authorized a **procurator**.

The company has established a long term relations with **DSK Bank EAD - Varna**.

The auditor of the company’s 2013 financial statements is KPMG Bulgaria OOD, a registered auditors company.

The main activity of the company in the reporting period is related to the organization and preparation for launching a significant investment in residential and holiday property. The Company is at an early stage of its development as a real estate investor.

At the date of this report, there are no established **branches of the company**.

1. Qualitative and quantitative information about the main types of goods, products and/ or services, showing their part in the sales income of the company as a whole and the changes that took place in the reported financial year.

The company has not provided any services in relation to its activity. Respectively, no income from selling services was recorded for the period.

2. Information about the revenues allocated by separate categories of activities, domestic and external markets as well as information about the sources for supply of materials required for the manufacture of commodities or the provision of services with indication of the degree of dependence in relation to any individual seller or buyer/user, where if the share of any of them exceeds 10 per cent of the expenses or revenues from sales, information shall be provided about every person separately about such person’s share in the sales or purchases and his relations with the company.

The company has not provided any services in relation to its activity. Respectively, no income from selling services was recorded for the period.

2.1 Information about the activity of the company

For the period 01.01.2013 - 31.12.2013, the company has not generated revenue from sales and has no financial income. The Company has accumulated expenses from ordinary activities amounted to BGN 250 thousand and financial expenses of BGN 5 thousand. The financial result after tax of the company for 2013 is loss amounting to BGN 255 thousand.

As at 31.12.2013 the company has receivables for VAT refund. The company has current liabilities amounting to BGN 109 thousand and liabilities on loan received from the majority shareholder of BGN 157 thousand.

3. Information about concluded material transactions and such of significant importance for the company's activity.

In 2013 the company has not entered in significant transactions.

4. Information about the transactions concluded between the Company and related parties during the reporting period, proposals for conclusion of such transactions as well as transactions which are outside its usual activity or substantially deviate from the market conditions, to which the Company or its subsidiary is a party, indicating the amount of the transactions, the nature of relatedness and any information necessary for an estimate of the influence over the Company's financial status.

The company has concluded a contract for revolving facility with the majority shareholder and member of the Board of Directors Rainbow Malta (Holdings) Limited, having the following parameters: limit up to €100 mil., interest 3m Euribor+6%, repayment deadline 28.03.2015. During the reporting period the company has utilized BGN 153 thousand from the credit limit and accrued interest of BGN 4 thousand. The company has also received services of BGN 1 thousand from "Black Sea Investment Trust" EAD, a company from the same group. The company received guarantees for good management from the members of Board of Directors in the amount of BGN 8 thousand.

5. Information about events and indicators of unusual nature for the Company, having substantial influence over its operation and the realized by it revenues and expenses made; assessment of their influence over the results during the current year.

In 2013 there were no events of unusual nature to the company which significantly influenced its activities.

6. Information about off-balance sheet transactions.

The company made no off-balance sheet transactions in 2013.

7. Information about holdings of the Company, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as the investments in equity securities outside its economic group and the sources/ways of financing.

The company has no participations in the capital of other companies.

8. Information about the concluded by the Company, by its subsidiary or parent company, in their capacity of borrowers, loan contracts with indication of the terms and conditions thereof, including the deadlines for repayment as well as information on the provided guarantees and assuming of liabilities.

The company has concluded a contract for revolving facility with the majority shareholder and member of the Board of Directors Rainbow Malta (Holdings) Limited, having the following parameters: limit up to €100 mil., interest 3m Euribor+6%, repayment deadline 28.03.2015. During the reporting period the company has utilized BGN 153 thousand from the credit limit.

9. Information about the concluded by the Company, by its subsidiary or the parent company, in their capacity of lenders, loan contracts, including the provision of guarantees of any type, including to related persons, with indication of the concrete conditions thereunder, including the deadlines for repayment and the purpose for which they have been granted.

The company has not provided loans. The parent company has provided a loan to Madara Europe AD, see p.8

10. Information about using cash from a new emission of securities carried out during the reported period.

No new securities' emission was completed during the reported period.

11. Analysis of the ratio between the achieved financial results reflected in the financial statement for the fiscal year, and previously published forecasts for these results.

The company has not published a financial forecast for 2013.

12. Analysis and assessment of the policy concerning the management of the financial resources with indication of the possibilities for servicing of the liabilities, eventual threats and safeguards which the issuer has undertaken or is to undertake with a view to their removal.

The company manages successfully its financial resources and normally serves its liabilities.

13. Assessment of the possibilities for realization of the investment intentions, indicating the amount of the available funds and stating the possible changes in the structure of the financing of this activity.

The company will realize its investment plan using own cash and borrowings, as well as through capital increase – undertaking public offering.

14. Information about changes occurred in the reporting period of the core principles for management of the Company and its economic group.

During the reported period, there were no changes in the basic principles for management of the Company.

15. Information about the changes in the management and supervisory bodies during the reporting financial year.

By a resolution voted on the extraordinary general meeting of the shareholders held on 07.01.2013 and subsequent entry No:20130205103306 at the Commercial register of the Agency of registration on 05.02.2013 the members of the Board of Directors have been removed and new Board members elected: Scott Perkins, Lujdmil Gachev and Rainbow Malta (Holdings) Limited, represented by Mr. Paul Riley, who will manage and represent the Company to third parties.

16. Information on the remuneration, rewards and/or the benefits for each of the members of the management and supervision bodies for the year under review, paid by the issuer and its subsidiaries, irrespective of whether they have been included in the issuer's expenses or arise from profit distribution.

In 2013 the members of the Board of Directors received remuneration from the company amounting to BGN 13 thousand.

17. Information for shares of the company, owned by the members of the management and control bodies, procurators and the senior management.

Shareholder Board member	direct participation		Through related parties	
	Number of shares	% participation	Number of share	% participation
Rainbow Malta (Holdings) Limited	47 498	94.99%	49,998	99.99%

Rainbow Malta (Holdings) Limited has exercised a direct control over the company by holding 47 498 shares, corresponding to 94.99% of the share capital of „Madara Europe” AD.

Given the fact that Rainbow Malta (Holdings) Limited is related to Rainbow Group Services Limited, these two legal entities hold 99.99% of the company' share capital and exercised control over the company.

There are no physical persons engaged in indirect control of the company.

There are no legal entities engaged in direct or indirect control on the company.

The Members of the Board of Directors have no privileges or rights in acquiring shares of the company.

During the reporting period shares of the company have not been acquired by members of Board of Directors.

The members of the Board of Directors have not concluded contracts under Art. 240b of the Commercial Law.

18. Information for the participation of the members of Board of Directors as unlimited liability partners in commercial entities, about holdings of more than 25 percent of the capital of another company, as well as about their participation in the management bodies of other companies or cooperations as procurators, managers or board members.

As at 31.12.2013, the following information about **Paul Riley** was available:

The legal entities, in whose management or controlling bodies he participates or whose procurator is:

- “Black Sea Investment Trust EAD” – member of the management board, executive director;
- “Bulgarian Property Investment Trust” EAD – member of the management board, executive director;

As at 31.12.2013, the following information about **Scott Perkins** is available:

1. Legal entities in which he holds directly or indirectly at least 25 percent of the votes in the General meeting or which he controls are:

- Sylo Capital LLP, UK Limited Liability Partnership
- Madara Capital LLP, UK Limited Liability Partnership
- Perkins Financial Ltd, UK Limited Company reg. No 7019873

2. Legal entities, in whose management or controlling body bodies he participates or whose procurator is:

- Madara Byala EAD, UIC 175182863 – board member
- Madara Capital Bulgaria EAD, UIC 175082788 – board member
- Madara Borovets EAD, UIC 175227835 – board member
- Madara Bulgarian Property Fund Ltd, UK – board member
- Vitec Global Limited Ltd, UK – board member
- Vitec Speciality Chemicals Ltd, UK – board member
- Vitec Air Systems Ltd, UK – board member
- Instavit Ltd, UK – board member
- Perkins Financial Limited, UK – board member
- Sylo Capital LLP, UK - managing partner.
- Madara Capital LLP, UK – managing partner

19. Information about the known to the company agreements (including those after the financial year end) as a result of which changes may occur at a future period in the owned relative share of the shares or bonds by current shareholders and bondholder.

There is no information for any agreements as a result of which changes may occur in a future period in the owned percent of shares by the current shareholders.

20. Information about pending legal, administrative or arbitration proceedings relating to Company’s liabilities or receivables at amount at least 10 percent of its equity; if the total amount of the Company’s liabilities or receivables under all initiated proceedings exceeds 10 per cent of its equity, information shall be submitted for each procedure separately.

The Company filed an appeal to SDC through FSC on 25.06.2013 against a penalty ordinance by which a penalty of 2000 leva is imposed for a contended breach of art.117, par.2 of POSA.

21. Significant research and development

The Company did not carry out research and development in 2013.

22. Significant events occurring between the date of the report and the date of preparation of the annual financial report.

On 19.03.2014 Council of Ministers of Republic of Bulgaria approved a Memorandum of understanding between the Government of Republic of Bulgaria and Madara Europe AD as well as forthcoming issuance of a Certificate for investment project “Black Sea Gardens Eco Resort”. The Memorandum determines the obligation of the investor to complete the investment project in compliance with the Bulgarian legislation as well obligations of the State for providing of the requested by the company incentives under the Investment Promotion Act - which comprise individual administrative services in shorter terms and institutional support from the interdepartmental working group.

23. Acquired and transferred own shares during the year

At the date of the report, no acquisitions of own shares were made by the company.

24. Information about the investor relations director.

Alexander Silviyanov Ivanov

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25. Investment intentions for future development

Madara Europe AD focuses on investment in real estate, including buying and selling of real estate, investment in land, infrastructure, residential and holiday property, and the acquisition of other companies in these sectors.

The Company has identified several projects and land parcels which the management considers to be suitable for future development and to achieve the Company's strategy of developing high-end residential resorts, primarily on the Black Sea coast.

One of the Company's key strategic developments, is the Black Sea Gardens Project located close to the town of Byala on the Black Sea Coast, for which realisation the Company intends to acquire 100% of the shares of equity of entities which already possess land in Byala as well as to purchase additional land in Byala.

The development called "Black Sea Gardens" had originally been designed for the area by internationally-renowned architectural practice Foster + Partners (www.fosterandpartners.com) up to Detailed Masterplan stage. The original design was for approximately 7,600 dwellings (1M m²), 151,000m² of hotel space, and 35,000m² of food & beverage / leisure, giving a Total Build Area (TBA) of 1.2M m².

However, the Company now estimates that the project needs a redesign to reduce the TBA to approximately 208,000 sq.m with a focus on hotels, residential village operated on a hotel basis, retail, leisure and spa facilities. Any redesign will have to meet with the strict current legislation, although shareholders should be aware of the risk factors noted below. The returns available to the Company from this project are based on these estimates.

The Company intends to sell some residential units to international investors but retain the ownership of the hotel, residential village, retail, leisure and spa facilities to be rented out to operators. The Company also intends to offer management services to the owners of the residential units.

Risks related to the activity of „Madara Europe” AD

It is possible that future performance of the issuer to differ from those laid down in the forecasts under the influence of risk factors mentioned. As a result, it is possible investors to partially or completely lose their investments.

Madara Europe AD is exposed to a specific risks. They in turn affect both individually and as a set of factors. Some of the risks facing the Company may be limited, and their consequences can be mitigated, while others are beyond the control and the ability of the Company for their regulation.

Comprehensive Plan the Company's risk management focuses on no proposal from financial markets and seeks to minimize the potential negative impact on the financial position of the Company

Market Risk.

Certain plots within the Development Land fall under the Natura 2000 environmental legislation and are therefore protected territories. Although Natura 2000 does not mean absolute restriction on real estate developments, any redesign of the Project will have to meet the standards of Natura 2000 which could potentially significantly reduce the returns available to the Company. Therefore there is a risk of the Project being significantly reduced in size or maybe not being granted planning permission at all.


However, the management and advisors of the Company have significant experience in both the design and planning permission process. Management intends to reduce the size of the Project and to employ highly experienced international and domestic architects to ensure that the Black Sea Gardens project adheres to all planning permission requirements.

Price Risk. Manifestation of this risk is associated with the potential for reduction of prices of properties offered by the company.

Competition. It is considered that the market competition is relatively weak in the luxury properties segment on the Black Sea coast, in which the Company stands and the sector is still growing phase. As well as it is considered that the Black Sea Gardens development has no direct competition on the property market at the moment because it envisages the use of environmental friendly materials and overall construction of a carbon free development.

Regulatory Risk. The extent to which the issuer is exposed to this type of risk is measured with the possibility of changes in the regulatory framework governing the activities of the issuer and its subsidiaries, which changes lead to restrictions or to introduce additional requirements for the activity.

Date: 20.03.2014



Paul Riley

(Executive Director of „Madara Europe” AD)

