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Notes to the interim financial statements

1) Reporting entity

Madara Europe AD (the „Company”) is a joint-stock company domiciled in Bulgaria. The Company is established on 11 August 2008 and is registered with the Commercial Register at the Bulgarian Registry Agency on 31 August 2008 with ID code 200431288, with the name Mayfair Group AD. By decision of the extraordinary General Meeting of the Shareholders dated 07.01.2013, the name of the Company is changed to Madara Europe AD and changes in the main activities of the Company, its head office and address of management as well as managing body are also approved. New Articles of Association is also established. The changes are registered with the Commercial Register at the Bulgarian Registry Agency on 05.02.2013 under the number 20130205103306 of Company’s file.

Majority shareholder and Executive Director of Madara Europe AD is Rainbow Malta (Holdings) Limited, a company registered with the Commercial Register of Malta with ID code C41426, which is represented by Mr. Paul Riley.

The main activities of the Company comprise investment in real estate, including purchase and sale of real estate, investments in land, infrastructure, residential and holiday real estate, acquisition of other entities, agent services and any other.

The Company has one-tier management system which is executed by Board of Directors. As at the date of authorization of these financial statements, the members of the Board of Directors are:

- Rainbow Malta (Holdings) Limited, represented by Mr. Paul Riley – Executive Director
- Scott James Perkins – Chairman of BoD
- Hristo Valeriev Sokolarski – Independent member of BoD.

Madara Europe AD is represented by Mr. Paul Riley in his capacity of representing the Executive Director Rainbow Malta (Holdings) Limited, which manages and represents the Company before third parties.

The address of management is Varna 9002, 82, “Kniaz Boris I” street, floor 2.

Since 2009, Company’s shares are admitted for trading on a regulated market - BSE Sofia, with ticker symbol 6MF.

2) Basis of preparation

(a) Statement of compliance

The condensed interim financial statements, as at and for the three months ended 31 March 2015, have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for the year ended 31 December 2014.

These condensed interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and must be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2014 prepared in accordance with IFRS as adopted by the European Union (EU).

These financial statements were authorised for issue by the Executive Director on 29.04.2015.

Notes to the interim financial statements

2) Basis of preparation, continued

(b) Going concern

Madara Europe is registered as a joint-stock company. As a joint-stock company, it is necessary to maintain net assets to be higher than registered share capital, and legal reserves to be at least 10% of registered capital. As at 31 March 2015 the total share capital (equal to net assets of the Company) is lower than the registered share capital. This is due to the fact that the Company is still in its initial development stage and it incurs preliminary administrative expenses and legal and consulting expenses related to preparation activities for completion of its major project for building and sale of real estate.

Since the Company has the financial support of the ultimate parent company, the financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue its activities in the foreseeable future.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency

These financial statements are presented in BGN, which is the Company's functional currency. All financial information presented in BGN has been rounded to the nearest thousand, except when otherwise indicated.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3) Significant accounting policies

These condensed interim financial statements are prepared in accordance with the significant accounting policies of the last annual financial statements as at and for the year ended 31 December 2014 as well as the new standards, amendments to standards and interpretations which are in force for the financial year starting on 1 January 2015 and applicable for the Company.

4) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the interim period ended 31 March 2015, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early.

The Company does not expect the new standards, amendments to standards and interpretations to have significant impact on the financial statements.

Notes to the interim financial statements

5) Hired services

In thousands of BGN

	31.03.2015	31.03.2014
Legal services	6	-
Marketing and PR	3	-
Audit	2	5
Maintenance of shares issue and public offering	2	2
Administrative services	4	-
	<u>17</u>	<u>7</u>

6) Employee benefit expenses

In thousands of BGN

	31.03.2015	31.03.2014
Wages and salaries and social security contributions	2	10
	<u>2</u>	<u>10</u>

7) Trade and other receivables

In thousands of BGN

	31.03.2015	31.12.2014
VAT subject to refund	2	10
	<u>2</u>	<u>10</u>

8) Cash and cash equivalents

In thousands of BGN

	31.03.2015	31.12.2014
Cash at bank	6	-
Guarantees from BD members	2	2
	<u>8</u>	<u>2</u>

9) Capital and reserves

The Company's share capital amounts to BGN 50,000 distributed into 50,000 ordinary registered paperless shares with voting rights and nominal value of BGN 1 each. All shares form one class of ordinary paperless shares and all shares rank equally.

The registered share capital is fully paid.

Shareholders

	Number of shares 31.03.2015	% 31.03.2015
Rainbow Malta (Holdings) Limited	47,498	94.99%
Rainbow Group Services Limited	2,500	5.00%
Radoslav Dimitrov	2	0.01%
	<u>50,000</u>	<u>100.00%</u>

Notes to the interim financial statements

10) Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

<i>In thousands of BGN</i>	Note	31.03.2014	31.12.2013
Non-current liabilities			
Loan from related party	12	344	54
		<u>344</u>	<u>54</u>
Current liabilities			
Loan from related party		-	270
		<u>-</u>	<u>270</u>

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of BGN</i>	Currency	Nominal interest rate	Year of maturity	31 March 2015		31 December 2014	
				Face value	Carrying amount	Face value	Carrying amount
Loan from related party	EUR	3m.Euribor+6%	2017	74	74	54	54
Loan from related party	EUR	3m.Euribor+6%	2016	270	270	270	270
Total interest-bearing liabilities				<u>344</u>	<u>344</u>	<u>324</u>	<u>324</u>

11) Trade and other payables

<i>In thousands of BGN</i>	31.03.2015	31.12.2014
Payables to suppliers	46	46
Personnel	11	12
Guarantees from BD members	2	2
Other	-	2
	<u>59</u>	<u>62</u>

12) Related parties

The Parent of the Company is Rainbow Malta (Holdings) Limited.

Bulgarian Property Investment Trust EAD (BPIT) – a company under common control

Black Sea Investment Trust EAD (BSIT) – a company under common control

Related party transactions

<i>In thousands of BGN</i>	Transaction value for the period ended		Balance outstanding	
	31.03.2015	31.03.2014	31.03.2015	31.12.2014
Loan provided from:				
Parent of the Company – Rainbow Malta	-	80	252	252
Loan interest accrued	-	-	18	18
BPIT - a company under common control	20	-	73	53
Loan interest accrued	-	-	1	1

Notes to the interim financial statements

12) Related parties, continued

Transactions with key management personnel

The key management personnel include the members of the Board of Directors. The Company has not provided loans to the directors.

Key management personnel compensation comprised:

In thousands of BGN

	31.03.2015	31.03.2014
Current earned income	-	7
	-	7

13) Subsequent events

No subsequent events occurred since 31 March 2015, which require adjustment or disclosure in the interim financial statements.