Notes to the financial statements

Notes to the 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
- Lyudmil Vladimirov Gachev – 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, Coompany's shares are admitted for trading on a regulated market on the Bulgarian Stock Exchange – Sofia with ticker symbol 6MF.

2) Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The financial statements were authorised for issue by the Board of Directors on 20 March 2014.

Notes to the financial statements

2) Basis of preparation (continued)

(b) Going concern

Madara Europe AD is registered as a joint-stock company. According to the Commercial Act, the Company is obliged to maintain a positive equity value. Also, according to the same law, the Company has to ensure that the equity is not lower than the share capital for a period longer than 1 year. The Company has realized a net loss of BGN 255 thousand for the year ended 31 December 2013, and as at that date the current liabilities of the Company exceed its total assets by BGN 246 thousand. As at 31 December 2013 the total equity (equal to the net assets of the Company) is lower than the registered share capital by BGN 296 thousand (31.12.2012: lower by BGN 41 thousand) and has a negative value of BGN minus 246 thousand. The difference is due to the fact that the Company is still in starting phase of development 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. These expenses are paid with amounts from the shareholders provided to the company as loans or equity.

The shareholders of the Company are in process of approval of development plan, which aims to ensure compliance with article 252(1) p.5 of the Commercial Act. The plan includes increase in share capital with agio. In addition, the company is supported financially by the ultimate parent company. The company signed a revolving loan contract for investment purposes with its main shareholder Raibow Malta Holdings Limited with limit of EUR 100 million which matures at 28 March 2015.

Certifying of the investment project of the company as a priority project has been approved with a decision of the Council of Ministers (refer to note 18).

The management believes that the taken measures as well as the future project development will result in profit in the foreseeable future, as well as in an increase of net assets to an amount higher than the registered share capital, and the implementation of the going concern assumption is appropriate in the circumstances given.

(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

In preparing these financial statements ,management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Notes to the financial statements

3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Financial instruments

The Company classifies non-derivative financial assets into the loans and receivables category.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements

3) Significant accounting policies (continued)

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(v) Dividends

Dividends are recognized as a liability in the period they are declared. Unpaid dividends are transferred in reserves.

Notes to the financial statements

3) Significant accounting policies (continued)

(c) Impairment

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security;
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables), at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements

3) Significant accounting policies (continued)

(d) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and that benefit is discounted to determine its present value.

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labor Code in Bulgaria. According to these regulations in the LC, when a labor contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries.

Due to the small number of the personnel, the Management of the Company estimates the approximate amount of the potential expenditures for every employee as insignificant.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

Notes to the financial statements

3) Significant accounting policies (continued)

(e) Revenue

(i) Rendering of services

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the financial statements

3) Significant accounting policies (continued)

(g) Finance income and finance costs

The Company has no finance income. The finance costs of the Company include interest expense.

Interest income or expense is recognised using the effective interest rate method.

4) New standards and interpretations not yet adopted

New International Financial Reporting Standards (IFRS) and interpretations to IFRS (IFRIC) not yet mandatory as at the reporting date

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2013, 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.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:

- IFRS 10 Consolidated Financial Statements shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Company does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Company's control over its investees.
- IFRS 11 *Joint Arrangements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.
- IFRS 12 *Disclosures of Interests in Other Entities,* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities shall be applied for annual periods beginning on or after 1 January 2014. The Company does not expect the new standard to have any impact on the financial statements, since the parent company does not qualify as an investment entity.

Notes to the financial statements

4) New standards and interpretations not yet adopted (continued)

- *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets s*hall be applied for annual periods beginning on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting s*hall be applied for annual periods beginning on or after 1 January 2014. The entity does not expect the Amendment to have any impact on the financial statements, since the entity does not apply hedge accounting.

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments* (2009), additions to IFRS 9 (2010 and 2013) and Amendment to IFRS 9 and IFRS 7 *Mandatory effective date and transitional disclosures* (Effective date not yet determined; to be applied prospectively. Earlier application is permitted.)
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* (Effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted. The amendments apply retrospectively).
- IFRIC 21 – *Levies* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted).

Notes to the financial statements

4) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of the discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6) Revenue

In thousands of BGN	**2013**	**2012**
Written off payables	-	6
	-	6

By decision of the Management as at 31 December 2012 payables under invoices are written off as not due and/or expired.

7) Hired services

In thousands of BGN	**2013**	**2012**
Legal services	145	-
Consultancy services	66	-
Audit services	6	-
Maintain of issue and public trading of shares	7	-
Administrative services	3	4
	227	4

8) Employee benefit expenses

In thousands of BGN	**2013**	**2012**
Wages and salaries and other contributions	23	2
	23	2

Notes to the financial statements

9) Taxes

Income tax expense

In thousands of BGN	**2013**	**2012**
Income tax recognised in profit or loss		
Current tax expense		
Current year tax expense	-	-
	-	-
Deferred tax expense		
Origination and reversal of temporary differences	-	-
	-	-
Total income tax expense	-	-

Reconciliation of effective tax rate

In thousands of BGN	**2013**	**2013**	**2012**	**2012**
Loss for the year		(255)		-
Total income tax expense		-		-
Loss before income tax		(255)		-
Income tax using the Company's domestic tax rate	10.00%	(26)	10.00%	-
Current year tax loss for which deferred tax asset was not recognised previously	(10.00%)	26		-
		-		-

Unrecognised deferred tax assets

The Company has accumulated tax losses for period of 5 years (2009-2013) at the total amount of BGN 285 thousand. Deferred tax assets (at the amount of BGN 28 thousand) have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits there from.

10) Trade and other receivables

In thousands of BGN	**31.12.2013**	**31.12.2012**
VAT refunds	11	-
	11	-

11) Cash and cash equivalents

In thousands of BGN	**31.12.2013**	**31.12.2012**
Cash in hand	-	10
Bank balances	1	-
Cash on bank balances on received guarantees from BoD members	8	-
	9	10

The cash on bank balances on guarantees from BoD members are received in accordance with Public Offering of Securities Act art.116.

Notes to the financial statements

12) 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. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 16.

In thousands of BGN	*note*	**31.12.2013**	**31.12.2012**
Non-current liabilities			
Loan from related party	*17*	157	-
		157	-
Current liabilities			
Loan from related party		-	-
		-	-

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of BGN	**Currency**	**Nominal interest rate**	**Year of maturity**	**31 December 2013**		**31 December 2012**	
				Face value	**Carrying amount**	**Face value**	**Carrying amount**
Loan from related party	EUR	3month Euribor+6%	2014-2015	157	157	-	-
Total interest-bearing liabilities				157	157	-	-

In 2013 the Company has entered into a credit agreement with the Parent company for up to EUR 100 million According to the credit agreement, during the entire term of the agreement, which was set to 2 years, multiple disbursements and repayments within the limit are allowed.

Notes to the financial statements

13) Capital and reserves

By a decision of the General Meeting of Shareholders on 7 January 2013 the nominal value of shares was changed from BGN 2 per share to BGN 1 per share. Each shareholder, who possesses 1 share with a nominal value of BGN 2 will receive 2 shares with a nominal value of BGN 1 each. As a result as at 31 December 2013 the Company's share capital was at the amount of BGN 50,000 distributed into 50,000 ordinary registered dematerialized shares with voting rights and nominal value of BGN 1 each. All shares form one class of ordinary dematerialized shares and all shares rank equally. The registered capital is fully paid as at the date of incorporation.

Shareholders	**Number of shares 2013**	**% 2013**
Rainbow Malta (Holdings) Limited	47,498	94.99%
Rainbow Group Services Limited	2,500	5.00%
Radoslav Dimitrov	2	0.01%
	50,000	100.00%

14) Trade and other payables

In thousands of BGN	***Note***	**2013**	**2012**
Payables to suppliers		97	1
Personnel		2	-
Payables on guarantees from BoD members	*17*	8	-
Other		2	-
		109	1

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

15) Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of BGN 255 thousand (2012: nil), and a weighted average number of ordinary shares outstanding of 50 thousand (2012: 25 thousand), calculated as follows:

Loss attributable to ordinary shareholders (basic)

In thousands of BGN	**2013**	**2012**
Loss for the year	(255)	-
Loss attributable to ordinary shareholders	(255)	-

Weighted average number of ordinary shares (basic)

In thousands of shares	***Note***	**2013**	**2012**
Issued ordinary shares as at 1 January	*13*	25	25
Issued ordinary shares in January 2013	*13*	25	-
Weighted average number of ordinary shares at 31 December		50	25

Notes to the financial statements

16) Financial instruments

Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk arises principally from the Company's receivables from customers and banks.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
In thousands of BGN	***Note***	**2013**	**2013**
Cash at bank	*11*	9	-
		9	-

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a 30 day period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Company has also entered into a framework agreement in 2013 for a revolving credit for up to EUR 100 million with the main shareholder Rainbow Malta Holdings Limited.

Notes to the financial statements

16. Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2013

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 – 12 months**	**1 -2 years**	**2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Unsecured loan	157	(157)	-	-	(157)	-	-
Trade and other payables	109	(109)	(109)	-	-	-	-
	266	(266)	(109)	-	(157)	-	-

31 December 2012

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 – 12 months**	**1 -2 years**	**2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	1	(1)	(1)	-	-	-	-
	1	(1)	(1)	-	-	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

In general, the Company is not exposed to currency risk as the purchases and costs generated are denominated in EUR or BGN;

- The Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Sensitivity analysis

A sensitivity analysis for changes in the exchange rates of the BGN and Euro against other currencies would have no impact on the Company's financial statements due to the facts stated above.

Notes to the financial statements

16. Financial instruments (continued)

Interest rate risk

Exposure to interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Nominal amount	
In thousands of BGN	**2013**	**2012**
Fixed rate instruments		
Financial liabilities	-	-
	-	-
Variable rate instruments		
Financial liabilities	153	-
	153	-

Sensitivity analysis for variable rate instruments

The Company does not account for any variable rate financial assets and liabilities at fair value through profit or loss.

A change of 1 percent in interest rates would have increased or decreased profit or loss by BGN 1 thousand.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital and, at this stage, accumulated loss. As disclosed in note 2.(b) above, the Company is in initial development stage and does not generate return for its shareholders yet.

The Company monitors capital using an adjusted net debt to equity ratio, which is adjusted net debt divided by adjusted equity. For this purpose, the adjusted net debt is defined as total liabilities (which include interest bearing loans and borrowings and obligations under finance leases) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts recognised in equity relating to cash flow hedges and unaccrued proposed dividends.

All decisions for changes in this respect take into consideration the balance between price and risks inherent to different investment sources.

The Company's adjusted net debt to equity ratio at the end of the reporting period was as follows:

In thousands of BGN	**2013**	**2012**
Total liabilities	266	1
Less: cash and cash equivalents	(9)	(10)
Net debt	257	(9)
Total equity	(246)	9
Adjusted equity	(246)	9
Net debt to adjusted equity ratio at 31 December	(1.04)	(1.00)

There were no changes in the Company's approach to capital management during the year.

Notes to the financial statements

16. Financial instruments (continued)

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In thousands of BGN	*Note*	31 December 2013 Carrying amount			31 December 2012 Carrying amount		
		Loans and receivables	Other financial liabilities	Total	Loans and receivables	Other financial liabilities	Total
Financial assets not measured at fair value							
Cash and cash equivalents	*11*	9	-	9	10		10
		9	-	9	10	-	10
Financial liabilities not measured at fair value							
Loan from related party	*12*	-	(157)	(157)	-	-	-
Trade and other payables	*14*	-	(109)	(109)	-	(1)	(1)
		-	(266)	(266)	-	(1)	(1)

The Management has reviewed the fair values of the financial assets and liabilities as at 31 December 2013, and considers that they do not differ from their carrying amounts.

17) Related parties

The Parent company is Rainbow Malta Holdings Limited

Black Sea Investment Trust EAD – Company under common control

Bulgarian Property Investment Trust EAD - Company under common control

Related party transactions

In thousands of BGN	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Loan received from Rainbow Malta (Parent company)	153	-	153	-
Interest accrued on loan	4	-	4	
Service provided from Black Sea Investment Trust EAD - rent	1	-	1	-

Key management personnel transactions

The key management personnel of the Company include the members of the Board of Directors.

The Company has not granted loans to the key management personnel.

Key management personnel compensation comprised:

In thousands of BGN	31.12.2013	31.12.2012
Short-term benefits	13	-
	13	-

During the year the Company received cash for guarantees for good management from the members of Board of Directors for the amount of BGN 8 thousand. As at 31 December 2013 the payables to the members of Board of Directors on received guarantees is BGN 8 thousand.

Notes to the financial statements

18) Subsequent events

On 19.03.2014 Council of Ministers of Republic of Bulgaria approved a Memorandum of understanding between the Governement 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 - whch comprise individual administrative services in shorter terms and institutional support from the interdepartmental working group.

No other subsequent events, that require adjustments or disclosures in the financial statements, have occurred during the period from the reporting date to the date the financial statements were authorised for issue by the Board of Directors.