

Annual activity report

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 Madara Europe AD (the Company). It contains information on art. 33, para. 1 of the Accountancy Act and Art. 100n, para. 7 of the Public Offering of Securities Act (POSA), as well as art. 32, para 1, p.2 and 4 of the Ordinance № 2 of the Financial Supervision Commission.

I. General information for the Company

„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
- Hristo Valeriev Sokolarski

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 auditor of the company's 2014 financial statements is Toma Stoilov, a registered auditor with diploma No:0512.

The main activity of the company comprises 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 not authorized a **procurator**.

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

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

II. Review of the activity and position of the Company

1. Main activity

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 via realization of the “Black Sea Gardens Eco Resort” project.

2. Main financials

For the period 01.01.2014 - 31.12.2014, the company has not generated revenue from sales and has no financial income. The Company has accumulated expenses from ordinary activities amounted to BGN 113 thousand and financial expenses of BGN 15 thousand. The financial result of the company for 2014 after tax is loss amounting to BGN 128 thousand.

As at 31.12.2014 the company has receivables for VAT refund of BGN10 thousand. The company has current liabilities amounting to BGN 62 thousand and liabilities on loan received from the majority shareholder and other related party of BGN 324 thousand in total.

3. Dividend policy.

Since its incorporation the company has not made /distributed profit.

4. Changes in the price of the shares of the Company

Company's shares are admitted for trading on a regulated market on the Bulgarian Stock Exchange – Sofia. No changes in the price of the shares.

5. Risks connected with the Company's activity

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.

III. Future development of the Company

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.

IV. Research and development

The Company did not carry out research and development

V. Significant events occurring after the date of the financial statements.

On 24 March 2015 an additional agreement to the framework loan agreement between the Company and Rainbow Malta Holdings Limited has been concluded, which settled new final date – 31.03.2017, for repayment of the used amounts from the limit, including all outstanding interest and cost.

VI. Information under art. 187d and art.247 of the Commercial Act

1. Number and nominal value of the acquired and transferred own shares during the year and the part of the capital they represent.

In 2014 acquisition and transfer of own shares have not been made by the Company.
As at 13.12.2014 the Company does not possess own shares.

2. Total remuneration received by the members of the boards

Information regarding the remuneration is disclosed in section IX, p.17 of the present report.

3. Information for acquired, held and transferred by board members during the year shares and bonds of the Company

During the reporting period shares of the Company have not been acquired and transferred by the board members. Information for the possessed shares by the board members is disclosed in section IX, p.18 of the present report.

4. Information on the rights of board members to acquire shares and bonds of the Company

The members of the Board of Directors of the company may freely acquire shares of the company on a regulated market of securities subject to the provisions of the Law Against Market Abuse with Financial Instruments and the Public Offering of Securities Act.

Board members do not have privileges and rights to acquire shares of the company.

5. Information about concluded by the company in 2014 contracts under art. 240b of the Commercial Act, with members of the Board of Directors or related parties, which go beyond the usual business activity or significantly deviate from market conditions.

No contracts have been concluded by the company under art. 240b of the Commercial Act with members of the Board of Directors or related parties, which go beyond the usual business activity or significantly deviate from market conditions.

6. 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 31.12.2014, the following information about **Paul Riley**, representative of Rainbow Malta (Holdings) Limited was available:

Legal entities, in whose management or controlling bodies he participates or whose procurator he was:

- “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 31.12.2014, the following information about **Scott Perkins** was 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 he was:

- 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

As at 31.12.2014, no information was available for Hristo Sokolarski for other participation.

VII. Financial instruments

The financial instruments used by the Company are non-derivative financial instruments and represent trade and other receivables, loans granted, cash and cash equivalents, loans and borrowings and trade and other payables.

Detailed disclosure of the financial instrument is made in Note 17 to financial statements. Company's maximum credit exposure as at the balance sheet date is presented in the same note together with its exposure to liquidity, currency and interest rate risks and sensitivity analysis

VIII. Information on the programme for good corporate governance and its implementation

As a public listed company Madara Europe AD implement and comply with the corporate practices and internationally recognized standards of good corporate governance as set out in the National Code of Corporate Governance. In this connection the Board of Directors of the Company (with former name "Mayfair Group" AD) adopted a programme of good corporate governance at a meeting held on 15.12.2009.

The Code is applied based on the principle "comply or explain". This means that the Company comply with the Code, and in case of deviation its management should explain the reasons for this. Given the above, the Company's management provides information to the shareholders based on the principle "comply or explain". This information is intended to provide details to the investors of the Company and all other stakeholders on specific actions and measures taken by the management for complying with the basic principles of the Code and best practices in corporate governance.

The information is provided as a separate report, called "comply or explain".

Currently disclosed information during the reporting period was provided to the FSC, BSE - Sofia AD and CD in the terms and with the content as required by law. The Company disclose the regulated information to the public through the specialized financial media Investor.bg. Information is also published on the website of the Company <http://www.madaraeurope.eu/en/>

IX. Additional information under supplement №10 to Ordinance №2 of FSC.

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.

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

In 2014 the company has not entered in major 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 Bulgarian Property Investment Trust EAD, an entity under common control, having following parameters: limit up to €300 thousand, interest 3m.euribor+6%, final repayment date 15.04.2016. During the reporting period the company has utilized BGN 53 thousand from the credit limit and accrued interest of BGN 1 thousand.

No deviation from market prices for the executed transactions with related parties during the reporting period and there were no transactions out of the ordinary business of the issuer.

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 2014 there were no events of unusual nature to the company which significantly influenced its activities.

6. Information about off-balance sheet transactions.

In 2014 the company has not entered into transactions recorded off-balance sheet.

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 Bulgarian Property Investment Trust EAD, an entity under common control, having following parameters: limit up to €300 thousand, interest 3m.euribor+6%, final repayment date 15.04.2016. During the reporting period the company has utilized BGN 53 thousand from the credit limit and accrued interest of BGN 1 thousand.

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.

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

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

11. Analysis of the ratio between the achieved financial results reflected in the financial statements for the financial year and earlier published forecasts for these results.

The Company has not published forecasts.

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 debt and equity (through share 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 main features of the implemented by the company internal control system and risk management in the process of preparation of financial statements.

The existing system of internal control and risk management allows to reduce market risks, risks related to financial activities / exchange risks, risks associated with changes in interest rates, risks associated with cash flows, risks associated with investment decisions /.

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

By a resolution voted at the Extraordinary General Meeting of Shareholders held on 20.10.2014 the independent member of the Board of Directors Lyudmil Gachev was released and a new independent director was elected - Hristo Valeriev Sokolarski.

17. 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 2014 the company accrued gross remuneration to the members of the Board of Directors, amounting to BGN 18 thousand.

18. Information on shares of the issuer held by members of the management and supervisory bodies, procurators and the senior management, including the shares held by each of them individually and as a percentage of shares of each class, as well as the options provided by the issuer on its own securities:

Board member	number of shares held directly	number of shares controlled indirectly	total number of shares held and controlled	Total % of the share capital
Rainbow Malta (Holdings) Limited	47 498	-	47 498	94.99%

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.

The Company is not aware of any agreements as a result of which future changes may occur in the proportion of shares held by existing 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.

As at 31.12.2014 the Company was not a party to any pending legal, administrative or arbitration proceedings.

21. Information for the investor relations director.

Alexander Silviyanov Ivanov

Address of correspondence: Varna, 82 Kniaz Boris I blvd, fl.2, Tel/Fax: 052/610367

X. Analysis and interpretation of information in supplement No 11 to Ordinance No 2 of FSC

1. Structure of the company's capital, including securities which are not admitted to trading on a regulated market in the Republic of Bulgaria or another member State, with an indication of the different classes of shares, the rights and obligations associated with each class of shares and the portion of the total capital, which represents each class.

The share capital of the Company is BGN 50 000, fully paid, divided into 50 000 ordinary, dematerialized, registered shares with voting rights, with a nominal value of BGN 1 each.

There are no shares of the Company which are not admitted to trading on a regulated market in the Republic of Bulgaria or another Member State.

2. Restrictions on the transfer of securities, restrictions on the ownership of securities or the need to obtain approval of the company or another shareholder

All shares of the company are transferred without restriction, subject to the provisions of the Bulgarian legislation

3. Information about the direct or indirect ownership of 5 percent or more of the voting rights in the general meeting of the company, including details of the shareholders, the size of their holding and the manner in which shares are held.

Shareholder	number of shares held directly	number of shares held/ controlled indirectly	total number of shares held and controlled	Total % of the share capital
Rainbow Malta (Holdings) Limited	47 498	-	47 498	94.99%
Rainbow Group Services Limited	2 500	47 498	49,998	99.99%

Direct control over the company was exercised by Rainbow Malta (Holdings) Limited by holding 47,498 shares, corresponding to 94.99% of the share capital of "Madara Europe" AD.

Given that Rainbow Malta (Holdings) Limited is a controlled by Rainbow Group Services Limited, the latter hold indirectly 99.99% of the share capital and exercised control.

4. Shareholders with special control rights and description of these rights.

There are no shareholders with special control rights.

5. Control system in exercising voting rights when employees of the company are also shareholders and when control is not exercised directly by them

There is no control system in exercising voting rights by the shareholders.

6. Restrictions on the voting rights, as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for exercising the voting rights, or systems where with the assistance of the company the financial rights related to the shares are separated from the ownership of the shares.

There are no specific provisions and restrictions on the voting rights of shareholders holding a certain percentage or number of votes. The holder of each share is entitled to vote at the General Meeting of Shareholders.

7. Agreements between shareholders which are known to the company and which may result in restrictions on the transfer of shares or voting rights.

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of shares or voting rights.

8. Provisions on appointment and dismissal of members of the management bodies of the Company and about amendments of the Articles of Association

Under current legislation and the Articles of association, the members of the Board are appointed and dismissed by the General meeting of the shareholders.

Amendments to the Articles of association of the Company can only be made by the General meeting of shareholders.

9. The powers of the managing bodies of the company, including the right to decide on the issue and redemption of shares of the Company.

The main powers of the Board of Directors of the Company and other provisions are listed in the Articles of Association which enable the Board of Directors to increase the share capital of the company to issue bonds and to carry out the procedure for redemption of shares.

10. Major agreements of the Company that cause action, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except when disclosure of this information may cause serious damage to the Company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose the information by law.

The Company has not entered into such contracts.

11. Agreements between the company and its management bodies or employees for payment of compensation upon resignation or dismissal without legal grounds or upon termination of employment for reasons related to a tender offer.

There are no such agreements.

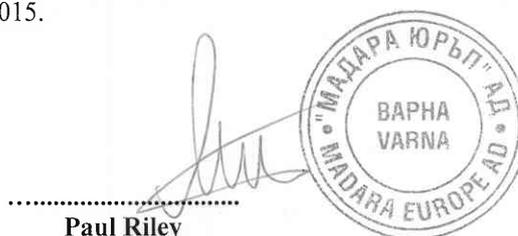
XI. Management's responsibilities

In accordance with Bulgarian legislation the management should prepare a report for the activities, as well as financial statements, which give a true and fair view of the financial position of the company as at year end and of its financial results from operations and its cash flows in accordance with the applicable accounting framework. For the purposes of Bulgarian statutory financial reporting the company applies International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The management confirms that it has acted in accordance with its responsibilities, and that the financial statements are prepared in full compliance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The management also confirms that in preparing the report for the activities, it has presented truly and fairly the development and the results from the operations for the year stating possible major risks that the entity is faced with.

The annual activity report of Madara Europe AD for year 2014 was approved for issue at a session of the Board of Directors of the Company held on 25.03.2015.

A handwritten signature in blue ink is written over a dotted line. To the right of the signature is a circular stamp. The stamp contains the text "МАДАРА ЮРЪЛ" АД" at the top, "ВАРНА" and "VARNA" in the center, and "MADARA EUROPE AD" at the bottom.

Paul Riley

Executive Director of „Madara Europe” AD,
through its proxy Alexander Ivanov