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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
- 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 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).

(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 128 thousand for the year ended 31 December 2014, and as at that date the current liabilities of the Company exceed its total assets by BGN 320 thousand.

As at 31 December 2014 the total equity (equal to the net assets of the Company) is lower than the registered share capital by BGN 424 thousand (31.12.2013: lower by BGN 296 thousand) and has a negative value of BGN minus 374 thousand.

Notes to the financial statements

2) Basis of preparation (continued)

(b) Going concern (continued)

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 31 March 2017 (refer to note 19).

A Memorandum for understanding between the Government of Republic of Bulgaria and Madara Europe AD and certifying of the investment project of the company „Black Sea Garden Eco Resort” as a priority project have been approved with a decision of the Council of Ministers No 183/ 28.03.2014.

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.

(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.

Notes to the financial statements**3) Significant accounting policies (continued)****(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.

(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.

Notes to the financial statements**3) Significant accounting policies (continued)****(c) Impairment (continued)****(i) Non-derivative financial assets (continued)**

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.

(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.

(i) 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) Changes in accounting policies. New standards and interpretations not yet adopted**Changes in accounting policies**

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*
- *IFRIC 21 Levies*
- *Amendments to IAS 32 Offsetting of financial assets and financial liabilities*
- *IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosures of Interests in Other Entities; IAS 27 Separate Financial Statements; IAS 28 Investments in Associates and Joint Ventures.*

(a) Amendments to IAS 36

As a result of the amendments to IAS 36, the Company has expanded its disclosures of recoverable amounts when they are based on fair value less costs of disposals and an impairment loss has been recognised.

(b) IFRIC 21 Levies

The adoption of the Interpretation has no effect on the financial statements since it did not lead to a change in the Company's accounting policies.

(c) Amendments to IAS 32

The adoption of the Interpretation has no effect on the financial statements since it did not lead to a change in the Company's accounting policies.

(d) IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28

These standards have no effect on the financial statements since the Company does not have any subsidiaries and does not have any investments in associates and joint ventures.

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 annual period ended 31 December 2014, 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.

Notes to the financial statements**4) Changes in accounting policies. New standards and interpretations not yet adopted (continued)*****Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:***

- Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycles. The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Entity;
- Amendments to IAS 19 – *Defined benefit plans: Employee contributions*. The entity does not expect the Amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

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 instrument* (issued 24 July 2014);
- IFRS 14 *Regulatory Deferral Accounts* (issued 30 January 2014);
- IFRS 15 *Revenue from contracts with customers* (issued 28 May 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception* (issued on 18 December 2014);
- Amendments to IAS 1 *Disclosure initiative* (issued 18 December 2014);
- Annual improvements to IFRSs 2012-2014 Cycle (issued 25 September 2014)
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associated or jointly controlled investee* (issued 11 September 2014);
- Amendments to IAS 27 – *Equity method in separate financial statements* (issued 12 August 2014);
- Amendments to IAS 16 and IAS 41 – *Bearer plants* (issued 30 June 2014);
- Amendments to IAS 16 and IAS 38 – *Clarification for acceptable methods of depreciation and amortization* (issued 12 May 2014);
- Amendments to IFRS 11 – *Accounting for acquisitions of interests in joint operations* (issued 6 May 2014).

Notes to the financial statements**5) 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) Hired services*In thousands of BGN*

	2014	2013
Marketing and PR	17	-
Legal services	36	145
Consultancy services	-	66
Audit services	5	6
Maintain of issue and public trading of shares	2	7
Administrative services	5	3
Representative cost	13	-
	78	227

7) Employee benefit expenses*In thousands of BGN*

	2014	2013
Wages and salaries	26	20
Social security and other contributions	3	3
	29	23

8) Other expenses*In thousands of BGN*

	2014	2013
Penalties	2	-
Business trip and other costs	4	-
	6	-

9) Finance costs*In thousands of BGN*

	2014	2013
Interest cost on loans from related parties	15	5
	15	5

Notes to the financial statements**10) Taxes**

During the period the Company has realised a tax loss at the amount of BGN 101 thousand (2013: BGN 247 thousand).

Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Company can utilise the benefits there from.

Deferred tax assets have not been recognised in respect of the following items:

<i>In thousands of BGN</i>	2014	2013
Tax losses with right to carry forward	37	28
Loans and borrowings	2	-
Employee benefits	1	-
	<u>40</u>	<u>28</u>

Tax loss with right to carry forward can be utilised against future taxable profits within five years from the year of its occurrence. The tax losses expire in the period 2015 - 2019.

The unrecognized for tax purposes interest costs arising from applying the thin capitalization rules under CITA can be deducted from future taxable profits within five years from the year they occur under certain conditions stipulated in the Act.

The unrecognized deferred tax assets are estimated by applying the expected tax rate at which they could be utilised, namely 10%.

11) Earnings per share***Basic earnings per share***

The calculation of basic earnings per share at 31 December 2014 was based on the loss attributable to ordinary shareholders of BGN 128 thousand (2012: BGN 255 thousand), and a weighted average number of ordinary shares outstanding of 50 thousand (2013: 50 thousand), calculated as follows:

	2014	2013
Loss for the year (<i>in thousands of BGN</i>)	(128)	(255)
Loss attributable to ordinary shareholders	<u>(128)</u>	<u>(255)</u>
Weighted average number of ordinary shares at 31 December	50,000	50,000
Basic earnings per share (<i>in BGN</i>)	<u>(2.56)</u>	<u>(5.10)</u>

New shares have not been issued during the year.

12) Other receivables

<i>In thousands of BGN</i>	31.12.2014	31.12.2013
VAT refunds	10	11
	<u>10</u>	<u>11</u>

Notes to the financial statements

13) Cash and cash equivalents

In thousands of BGN

	31.12.2014	31.12.2013
Bank balances	-	1
Cash on bank balances on received guarantees from BoD members	2	8
	<u>2</u>	<u>9</u>

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

14) Capital and reserves

As at 31 December 2014 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.

As at 31 December 2014 the shareholders of the Company were:

Shareholders	Number of shares	%
	2014	2014
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>

15) 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 17.

In thousands of BGN

	note	31.12.2014	31.12.2013
Non-current liabilities			
Loan from related party	18	54	157
		<u>54</u>	<u>157</u>
Current liabilities			
Loan from related party	18	270	-
		<u>270</u>	<u>-</u>

Notes to the financial statements

15) Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of BGN</i>			31 December 2014		31 December 2013	
	Currency	Nominal interest rate	Face value	Carrying amount	Face value	Carrying amount
Loan from related party	EUR	3month Euribor+6%	54	54	-	-
Loan from related party	EUR	3month Euribor+6%	270	270	157	157
Total interest-bearing liabilities			324	324	157	157

In 2014 the Company has entered into a credit agreement with “Bulgarian Property Investment Trust” EAD for up to EUR 300 thousand. 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.

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.

16) Trade and other payables

<i>In thousands of BGN</i>	<i>Note</i>	2014	2013
Payables to suppliers		46	97
Personnel		12	2
Payables on guarantees from BoD members	18	2	8
Other		2	2
		62	109

17) 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.

Notes to the financial statements

17) Financial instruments (continued)

Financial risk management (continued)

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:

In thousands of BGN	Note	Carrying amount	
		2014	2013
Cash at bank	13	2	9
		<u>2</u>	<u>9</u>

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, as well as a framework agreement for a revolving credit for up to EUR 300 thousand with Bulgarian Property Investment Trust EAD in year 2014.

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

31 December 2014

In thousands of BGN	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	1-2 years	2 – 5 years
Non-derivative financial liabilities						
Unsecured loan	324	(332)	(274)	-	(58)	-
Trade and other payables	62	(62)	(60)	(2)	-	-
	<u>386</u>	<u>(394)</u>	<u>(334)</u>	<u>(2)</u>	<u>(58)</u>	<u>-</u>

The contractual cash flows on the unsecured loans are calculated on the basis of the current interest rate at the reporting date under the relevant loan agreements.

Notes to the financial statements

17) Financial instruments (continued)

Liquidity risk (continued)

The comparative information in 2013 was:

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
Non-derivative financial liabilities						
Unsecured loan	157	(157)	-	-	(157)	-
Trade and other payables	109	(109)	(101)	(8)	-	-
	<u>266</u>	<u>(266)</u>	<u>(101)</u>	<u>(8)</u>	<u>(157)</u>	<u>-</u>

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.

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:

In thousands of BGN

	Nominal amount	
	2014	2013
Fixed rate instruments		
Financial liabilities	-	-
	<u>-</u>	<u>-</u>
Variable rate instruments		
Financial liabilities	305	153
	<u>305</u>	<u>153</u>

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 3 thousand.

Notes to the financial statements

17) Financial instruments (continued)

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:

<i>In thousands of BGN</i>	2014	2013
Total liabilities	386	266
Less: cash and cash equivalents	(2)	(9)
Net debt	384	257
Total equity	(374)	(246)
Net debt to equity ratio	(1.03)	(1.04)

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

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.

<i>In thousands of BGN</i>	Note	31 December 2014 Carrying amount			31 December 2013 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	13	2	-	2	9	-	9
		2	-	2	9	-	9
Financial liabilities not measured at fair value							
Loan from related party	15	-	(324)	(324)	-	(157)	(157)
Trade and other payables	16	-	(62)	(62)	-	(109)	(109)
		-	(386)	(386)	-	(266)	(266)

The Management has reviewed the fair values of the financial assets and liabilities as at 31 December 2014, and considers that they do not differ from their carrying amounts.

Notes to the financial statements**18) Related parties****Identification of the related parties**

The Parent company is Rainbow Malta Holdings Limited

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

Bulgarian Property Investment Trust EAD - Company under common control (BPIT EAD)

Related party transactions

<i>In thousands of BGN</i>	Transaction value for the year ended		Balance outstanding as at	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loan received from Rainbow Malta	100	153	252	153
Interest accrued on loan	14	4	18	4
Loan received from BPIT EAD	53	-	53	-
Interest accrued on loan	1	-	1	-
Service provided – rent from BSIT EAD	-	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:

<i>In thousands of BGN</i>	31.12.2014	31.12.2013
Short-term benefits	18	13
	18	13

During the year the Company refunded cash for guarantees for good management from the members of Board of Directors for the amount of BGN 6 thousand. As at 31 December 2014 the payables to the members of Board of Directors on received guarantees is of BGN 2 thousand (2013: BGN 8 thousand).

19) Subsequent events

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.

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.