

Interim financial statements and independent auditors' review report
FHL Mermeren kombinat a.d., Prilep
30 June 2005

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Independent auditors' review report

To the Board of Directors of FHL Mermeren kombinat a.d., Prilep

We have reviewed the accompanying balance sheet of FHL Mermeren kombinat a.d., Prilep ("The Company") at 30 June 2005 and the related statements of income, changes in equity and cash flows for the period from 01 January through 30 June 2005 and included on pages 2 to 10. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with International Standards on Review Engagements 2400 "Engagements to review financial statements". This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with International Financial Reporting Standards, as issued by International Accounting Standards Board.

Grant Thornton

Skopje,
20 September 2005

Balance sheet

	Note	At 30 June 2005	(000 mkd) At 31 December 2004
Assets			
Non-current assets			
Property, plant and equipment	3	763,822	751,857
Intangible assets	4	45,152	58,936
Available – for – sale investments	5	57,875	57,875
		866,849	868,668
Current assets			
Inventories		455,736	501,542
Trade and other receivables		790,862	781,305
Cash and cash equivalents		882	1,762
		1,247,480	1,284,609
Total assets		2,114,329	2,153,277
Shareholders' equity			
Share capital	6	541,129	541,129
Revaluation surplus		101,544	101,544
Other reserves		433,996	417,736
Retained earnings		214,479	336,898
Total shareholders' equity		1,291,148	1,397,307
Liabilities			
Non – current liabilities			
Borrowings	7	426,059	275,895
Deferred tax liabilities		17,920	17,920
		443,979	293,815
Current Liabilities			
Trade and other payables		233,470	293,764
Borrowings and current maturities	7	137,933	153,355
Liabilities for taxes		7,799	15,036
		379,202	462,155
Total liabilities		823,181	755,970
Total liabilities and shareholders' equity		2,114,329	2,153,277

These financial statements have been approved by the Board of Directors at 30 June 2005 and signed on its behalf by,

Mr. Srgjan Krstic,
Executive, General Director

See accompanying notes to the interim financial statements

Statement of income

	Note	Period ended 30 June 2005	(000 mkd) Period ended 30 June 2004
Sales	8	397,777	319,431
Cost of sales		(283,895)	(140,072)
Gross profit		113,882	179,359
Administrative and selling expenses		(37,015)	(59,969)
Other operating income	9	5,798	40,333
Profit from operations		82,665	159,723
Financial result, net	11	(10,908)	(14,494)
Profit before income tax		71,757	145,229
Income tax (expense)		(5,347)	(11,143)
Net profit		66,410	134,086
Attributable to:			
Equity holders of the Company		66,410	134,086
		66,410	134,086
Earnings per share for profit attributable to the equity holders for the period			
- Basic (in Denars per share)	12	14	30

Statement of changes in equity

	Share Capital	Other Reserves	Revaluation surplus	Retained earnings	(000 mkd) Total
At 01 January 2004	344,403	357,600	112,667	322,599	1,137,269
Additional paid – in capital	196,726	-	-	-	196,726
Net profit for the year	-	-	-	235,734	235,734
Released revaluation surplus	-	-	(11,123)	11,123	-
Allocation of retained earnings	-	60,136	-	(60,136)	-
Dividends declared	-	-	-	(172,422)	(172,422)
At 31 December 2004	541,129	417,736	101,544	336,898	1,397,307
At 01 January 2005	541,129	417,736	101,544	336,898	1,397,307
Net profit for the period	-	-	-	66,410	66,410
Allocation of retained earnings	-	16,260	-	(16,260)	-
Dividends declared	-	-	-	(172,569)	(172,569)
At 30 June 2005	541,129	433,996	101,544	214,479	1,291,148

Statement of cash flows

	Period ended 30 June 2005	(000 mkd) Period ended 30 June 2004
Operating		
Net profit before tax	71,757	145,229
<u>Adjusted for:</u>		
Depreciation and amortization	51,509	42,098
Net finance cost	15,253	15,574
Income from equipment sold	(482)	-
Net carrying amount of equipment sold	306	-
Impairment charges on trade debts	264	11,498
(Release) of provision for impairment on trade debts	(16)	(35,730)
Operating profit before working capital changes	138,591	178,669
<u>Changes in working capital:</u>		
Decrease / (Increase) in inventory	45,806	(73,231)
(Increase) in trade and other receivables	(9,805)	(208,093)
(Decrease) / Increase in trade and other payables	(70,920)	17,006
Cash from / (used in) operations	103,672	(85,649)
Interest and bank charges paid	(16,267)	(17,531)
Income tax paid	(5,347)	(11,143)
	82,058	(114,323)
Investing		
Purchase of equipment and intangibles	(49,996)	(134,109)
Proceeds from sale of equipment	482	-
Purchase of securities	(19,148)	-
Interest received	25	871
Dividends received	1,362	1,064
	(67,275)	(132,174)
Financing		
Proceeds from additional paid – in capital	-	196,726
Dividends paid	(150,926)	(17,457)
Proceeds from borrowings	227,313	39,864
(Repayments) of borrowings	(92,050)	(30,556)
	(15,663)	188,577
Net (decrease) in cash and cash equivalents	(880)	(57,920)
Cash and cash equivalents at beginning of the period	1,762	58,679
Cash and cash equivalents at end of the period	882	759

See accompanying notes to the interim financial statements

Notes to the interim financial statements

30 June 2005

1 General

FHL Mermeren kombinat a.d., Prilep (the “Company”) is a Shareholders’ Company incorporated and domiciled in the Republic of Macedonia. The address of its registered head office is as follows: No. 222, Marsal Tito str., Prilep, Republic of Macedonia.

At 30 June 2005 and 31 December 2004, the majority of total issued shares -88.4% is owned by FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles S.A Greece, which is the ultimate parent.

The Company’s main business activities include mining, processing and distribution of marble and decorative stones. The Company operates on local and foreign markets and at 30 June 2005 employs 419 persons (30 June 2004: 463).

2 Basis of preparation

These financial statements have been prepared in compliance with the International Financial Reporting Standards, as issued by International Accounting Standards Board, as well as the interpretations of the Standing Interpretation Committee of the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the presentation of certain long-term assets at their revalued cost.

The interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”, following the same accounting policies and methods of computation as compared with the annual financial statements as of and for the year ended 31 December 2004.

Notes to the interim financial statements (continued)

30 June 2005

(All amounts in Denar thousands, unless otherwise stated)

3 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construct.in progress	Total
At 31 December 2004				
Cost or Revaluation	205,968	673,003	7,445	886,416
Accumulated Depreciation	(21,877)	(112,682)	-	(134,559)
Net Carrying Amount	184,091	560,321	7,445	751,857
Period ended 30 June 2005				
Opening Net Carrying Amount	184,091	560,321	7,445	751,857
Additions, net of transfers from C.I.P.	3,069	42,022	4,905	49,996
Disposals	-	(306)	-	(306)
Depreciation charge for the year	(2,471)	(35,254)	-	(37,725)
Closing Carrying Amount	184,689	566,783	12,350	763,822
At 30 June 2005				
Cost or Revaluation	209,037	711,424	12,350	932,811
Accumulated Depreciation	(24,348)	(144,641)	-	(168,989)
Net Carrying Amount	184,689	566,783	12,350	763,822

4 Intangible assets

	Development costs	Patents & licenses	Total
At 31 December 2004			
Cost or Revaluation	136,425	148	136,573
Accumulated Depreciation	(77,489)	(148)	(77,637)
Net Carrying Amount	58,936	-	58,936
Period ended 30 June 2005			
Opening Net Carrying Amount	58,936	-	58,936
Amortization charge for the year	(13,784)	-	(13,784)
Closing Net Carrying Amount	45,152	-	45,152
At 31 December 2004			
Cost or Revaluation	136,425	148	136,573
Accumulated Depreciation	(91,273)	(148)	(91,421)
Net Carrying Amount	45,152	-	45,152

Notes to the interim financial statements (continued)
30 June 2005
(All amounts in Denar thousands, unless otherwise stated)

5 Financial assets available – for - sale

	30 June 2005	31 December 2004
Equity securities – listed		
Komercijalna Banka ad, Sk (ord.shares 2,839 a 5,310)	15,061	15,061
Interest in share capital of foreign entities		
Kosmos Building Materials Shanghai Co (USD 950,000; percentage of equity interest - 51%)	42,814	42,814
	57,875	57,875

Following table summarizes the movement of investments in securities:

	2005	2004
At 01 January	57,875	15,061
Additions	-	42,814
At 30 June / 31 December	57,875	57,875

At 22 March 2004, based on Pre-agreement signed with Sete Supply & Trade SA, Greece (the seller), the Company purchased 51% of the interest in the equity of Kosmos Building Materials Shanghai Co, China for the amount of US Dollars 950,000. Up to 30 June the Company deposited in total US Dollars 720,000 (equivalent to Denar 36,694 thousands) and is liable to pay the rest of the total charge, amounting US Dollars 230,000, no later than 31 December 2005.

Total dividends received for the period ended 30 June 2005 amount Denar 1,362 thousands (30 June 2004: Denar 1,065 thousands) (see also Note 11 - Financial result, net).

6 Shareholders' equity

Shares issued

At 30 June 2005 and 31 December 2004, shareholders' equity consists of 4,686,858 authorized and fully paid ordinary shares at Eur 1 at par. The structure of share capital is as follows (amounts in Eur):

	At 30 June 2005 and 31 December 2004		
	Number	Amount	%
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.	4,143,357	4,143,357	88.40
Piraeus Bank SA.	468,700	468,700	10.00
Other – minority	74,801	74,801	1.60
Total	4,686,858	4,686,858	100.00

Dividends

At 26 April 2005 and according to the Shareholders's Assembly Decision no. 02-439/1, part of the retained earnings amounting Denar 172,569 thousands were allocated for dividends to shareholders. During the period ended 30 June 2005, the Company has paid to its shareholders dividends in the total amount of Denar 150,926 thousands.

Notes to the interim financial statements (continued)

30 June 2005

(All amounts in Denar thousands, unless otherwise stated)

7 Borrowings

	30 June 2005	31 December 2004
Long – term loans		
Komercijalna Banka AD, Skopje (Eur. 2,200,000; Euribor+5.25%)	134,868	-
EBRD (Eur. 5,000,000; Euribor+3.5%)	306,517	306,550
	441,385	306,550
Less: current maturity	(15,326)	(30,655)
Long – term portion of long – term loan	426,059	275,895
Short – term loans		
Stopanska Banka AD, Skopje (Eur 3,500,000; 6 m.Eur.+ 5.25%)	122,607	122,700
Add: current maturity of long – term loans	15,326	30,655
Short – term loans and current maturities	137,933	153,355

8 Sales

	30 June 2005	30 June 2004
<u>Local market</u>	40,876	91,834
<u>Foreign markets:</u>		
- Greece and Cyprus	319,790	165,196
- Other	37,111	62,401
	397,777	319,431

9 Other operating income

	30 June 2005	30 June 2004
Income from raw materials and supplies sold	4,157	3,772
Rental income	554	85
Income from equipment sold	482	-
Collected bad debts and reversals of provisions	16	35,730
Other income	589	746
	5,798	40,333

10 Staff costs

	30 June 2005	30 June 2004
Net salaries	44,208	49,119
Personal income tax and mandatory contributions	30,616	33,840
Other mandatory allowances	8,539	6,643
	83,363	89,602

Notes to the interim financial statements (continued)
30 June 2005
(All amounts in Denar thousands, unless otherwise stated)

11 Financial result, net

	30 June 2005	30 June 2004
Dividend income	1,362	1,064
Interest (expense), net	(17,136)	(16,638)
Foreign exchange gains, net	4,866	1,080
Net financial result	(10,908)	(14,494)

12 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

	30 June 2005	30 June 2004
<u>Profit attributable to equity holders of the Company</u>	66,410	134,086
<u>Weighted average number of ordinary shares in issue</u>		
Issued ordinary shares at 01 January	4,686,858	4,218,158
Effect of shares issued in March 2004	-	290,024
<u>Weighted average number of ordinary shares at 30 June 2004</u>	4,686,858	4,508,182

13 Related party's transactions

The Company has related party transactions with its parent during the normal course of business activities. All these transactions were carried out on commercial terms and conditions and at market prices.

The table below provides for the volume and balances from the related party transactions as of and for the periods ended 30 June 2005 and 2004.

	Receivables	Payables	Revenues	Purchases
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 30 June 2005	96,671	56,056	14,813	74,474
- 30 June 2004	546,470	21,636	167,098	119,208

14 Contingencies and commitments

Contingencies

Assets pledged and guarantees. At 30 June 2005 and 31 December 2004, and in order to secure the funds borrowed under loan agreements with the local commercial banks, the Company has issued seven (7) blank cheques with authorization given to the respective banks to fill and cash without objection. It is not anticipated that any material liabilities will arise from these contingent liabilities. No additional payments are anticipated at the date of these financial statements.

Commitments

Capital commitments. There is no significant capital expenditure contracted at the balance sheet date that is not recognized in the financial statements.