Financial statements and independent auditors' report
FHL Mermeren kombinat a.d., Prilep
31 December 2005

Contents

Chartered Accountants
Member Firm of Grant Thornton International

Independent auditors' report

To the Management and Shareholders of
FHL Mermeren kombinat a.d., Prilep

We have audited the accompanying financial statements of FHL Mermeren Kombinat a.d., Prilep ("The Company") as of and for the years ended 31 December 2005 and 2004 and included on pages 2 to 18. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and 2004, and the results of its operations, changes in equity and its cash flows for the years than ended, in accordance with International Financial Reporting Standards.

Grant Thornton

Skopje,
17 March 2006

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Balance sheet

			(Amounts in EUR)
			At 31 December
	Note	**2005**	2004
Assets			
Non-current assets			
Property, plant and equipment	**4**	**13,847,795**	13,161,289
Intangible assets	**5**	**1,536,029**	978,646
Available – for – sale investments	**6**	**1,829,304**	944,127
		17,213,128	15,084,062
Current assets			
Inventories	**7**	**6,378,741**	8,181,762
Trade and other receivables	**8**	**16,748,172**	12,745,595
Cash and cash equivalents	**9**	**11,802**	28,744
		23,138,715	20,956,101
Total assets		**40,351,843**	36,040,163
Shareholders' equity	**10**		
Share capital		**8,845,171**	8,827,553
Reserves		**7,094,000**	6,814,617
Revaluation surplus		**2,053,748**	2,049,657
Retained earnings		**6,471,310**	5,818,874
Total shareholders' equity		**24,464,229**	23,510,701
Liabilities			
Non – current liabilities			
Interest – bearing borrowings	**11**	**8,000,000**	5,000,816
Deferred tax liabilities	**12**	**562,523**	489,494
		8,562,523	5,490,310
Current Liabilities			
Interest – bearing borrowings	**11**	**3,503,272**	2,001,631
Trade and other payables	**13**	**3,590,085**	4,792,236
Liabilities for taxes		**231,734**	245,285
		7,325,091	7,039,152
Total liabilities		**15,887,614**	12,529,462
Total liabilities and shareholders' equity		**40,351,843**	36,040,163

These financial statements have been approved by the Board of Directors on 28 February 2006 and signed on its behalf by,

Mr. Srgjan Krstic,
General Executive Director,

Statement of income

(Amounts in EUR)

	Note	Year ended 31 December 2005	2004
Sales	14	13,934,411	11,190,704
Cost of sales		(8,641,076)	(6,550,586)
Gross profit		**5,293,335**	4,640,118
Administrative and selling expenses		(1,100,902)	(856,705)
Other operating income	15	419,260	1,013,174
Profit from operations		**4,611,693**	4,796,587
Financial result, net	17	(442,596)	(570,750)
Profit before income tax		**4,169,097**	4,225,837
Income tax (expense)	18	(433,238)	(380,038)
Net profit		**3,735,859**	3,845,799
Attributable to:			
Holders of ordinary shares	20	3,735,859	3,845,799
Earnings per share (expressed in Euros per share)	20	0.80	0.84

Statement of changes in equity

(Amounts in Eur)

	Share Capital	Reserves	Revaluat. Surplus	Retained earnings	Total
At 01 January 2004	**5,618,952**	**5,834,262**	**2,049,888**	**5,767,713**	**19,270,815**
Translation differences	(816)	(712)	(231)	(653)	(2,412)
Additional paid - in capital	3,209,417	-	-	0	3,209,417
Net profit for the year	-	-	-	3,845,799	3,845,799
Allocation of profits	-	981,067	-	(981,067)	-
Dividends declared	-	-	-	(2,812,918)	(2,812,918)
At 31 December 2004	**8,827,553**	**6,814,617**	**2,049,657**	**5,818,874**	**23,510,701**
At 01 January 2005	**8,827,553**	**6,814,617**	**2,049,657**	**5,818,874**	**23,510,701**
Translation differences	17,618	13,866	4,091	58	35,633
Net profit for the year	-	-	-	3,735,859	3,735,859
Dividends declared	-	-	-	(2,817,964)	(2,817,964)
Allocation of profits	-	265,517	-	(265,517)	-
At 31 December 2005	**8,845,171**	**7,094,000**	**2,053,748**	**6,471,310**	**24,464,229**

Statement of cash flows

(Amounts in EUR)

	Note	Year ended 31 December 2005	2004
Operating			
Net profit before tax		4,169,097	4,225,837
Adjusted for:			
Depreciation and amortization		1,215,224	1,669,312
Gains on securities and fixed assets sold		(211,369)	-
Impairment charges on trade debts		-	(293,606)
Income on fixed assets sold		(7,871)	-
Dividend income		(22,257)	(17,375)
Interest income		(6,450)	-
Interest expense and bank fees		657,377	648,259
Operating profit before working capital changes		5,793,751	6,232,427
Changes in working capital:			
Inventories		1,803,021	(3,139,298)
Trade and other receivables		(3,943,863)	94,197
Trade and other payables		(1,215,303)	1,628,183
Cash from / (used in) operations		2,437,606	4,815,509
Interest paid		(657,377)	(607,229)
Income tax paid		(419,972)	(412,063)
		1,360,257	**3,796,217**
Investing			
Purchase of equipment and intangibles		(2,449,895)	(3,420,783)
Proceeds from equipment sold		43,874	-
Purchase of securities		(969,123)	(286,248)
Proceeds from securities sold		283,415	-
Repayment of borrowings given		-	505,021
Interest received		6,450	-
Dividends received		22,257	17,375
		(3,063,022)	**(3,184,635)**
Financing			
Proceeds from / (repayment of) borrowings		4,500,825	(1,959,720)
Proceeds from additional paid – in capital		-	3,209,417
Dividends paid		(2,817,964)	(2,789,849)
		1,682,861	**(1,540,152)**
Translation differences		2,962	(53)
Net change in cash and cash equivalents		(16,942)	(928,623)
Cash and cash equivalents at beginning	**9**	28,744	957,367
Cash and cash equivalents at end	**9**	11,802	28,744

Notes to the financial statements
31 December 2005 and 2004

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 31 December 2004 and 2005, 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 Company's 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 31 December 2005 employs 399 persons (2003: 464).

Following are the principal accounting policies adopted in the preparation of these financial statements:

2 Accounting policies

Basis of preparation
These financial statements have been prepared in compliance with the International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention, as modified by the presentation of certain long-term assets at their valuation.

These financial statements are prepared as of and for the years ended 31 December 2005 and 2004. Current and comparative data are presented in Euros unless otherwise stated.

Foreign currency translation
Functional and presentation currency
The Company maintains its accounting records and prepares its statutory accounts in local currency, i.e. in Macedonian Denars (MKD), which is Company's "functional currency". These financial statements are presented in Euros, which is "presentation currency" of the Company's ultimate Parent.

Foreign currency translation (continued)

Functional and presentation currency (continued)

The results and financial position of the Company are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

(ii) Income and expenses for each income statement are translated at average exchange rates, and

(iii) Resulting exchange differences are recognised as financial income or expense, respectively, in each income statement for the period they relate to.

Transactions and balances

Transactions denominated in foreign currencies have been translated into Macedonian Denars at the middle exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Macedonian Denars ("Denars") at the National Bank of the Republic of Macedonia middle exchange rate on the last day of the reporting period. All gains and losses resulting from foreign currency translation or exchange are included in the Statement of Income as financial income or expenses in the period in which they arose. The middle exchange rates used for conversion of the balance sheet items denominated in foreign currencies are as follows:

	31 December 2005	31 December 2004
1 USD	51.8589 Denars	45.0676 Denars
1 EUR	61.1779 Denars	61.3000 Denars

Property, plant and equipment

Items of property, plant and equipment are recorded at their revalued cost, based on the valuation performed by independent authorized valuers, less subsequent accumulated depreciation and impairment losses. The increase in the carrying amount of property, plant and equipment due to their revaluation is taken to an asset revaluation reserve, which forms part of the total reserves included within the Company's equity. When revalued assets are disposed of or sold, the amounts included in the revaluation reserves are transferred to the retained earnings for the period.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Constructed assets are depreciated from the time they are put into use. Land and construction in progress are not depreciated.
The estimated useful lives are as follows:

Buildings	40 years
Machinery	10 years
Equipment and motor vehicles	4 – 5 years

Where an asset's carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal or retirement are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit.

Interest costs on borrowings used to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

The costs of regular maintenance and repairs are charged to operating expenses as incurred. Improvements to the existing assets are capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment.

Intangible assets

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically or commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the period of its expected benefit, which is estimated at five years.

Other intangible assets

Expenditure to acquire rights and licenses is capitalized and amortized using the straight-line method over a period of five years.

Impairment of long - lived assets

Property, plant and equipment and other non-current assets, including intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Investments

Investments include available-for-sale equity securities, the classification of which is determined at the time of their purchase. These are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity.

Investments are initially recognized at cost, including transaction costs. Subsequently they are carried at fair value based on quoted bid prices. Unrealized gains and losses arising from changes in the fair value are recognized in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

When available – for – sale securities are sold or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. A financial assets is impaired if its carrying amount is greater than its estimated recoverable amount. At each balance sheet date the Company reviews the carrying amounts of its investment securities available for sale to determine whether there is any indication that those assets have suffered an impairment loss.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of supplies and spare parts are determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Trade and other receivables
Trade and other receivables, including advances to suppliers and other current receivables are carried at the nominal value as reduced by the provision made for their impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

Share capital
(1) Ordinary shares and preference shares with discretionary dividends are classified as equity.
(2) Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.
(3) Where the Company purchases its equity share capital, the consideration paid, including any directly attributable external costs is deducted from the total shareholders' equity as treasury shares. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

Borrowings
Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at their amortised cost.

Income taxes
Income tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is calculated and paid in accordance with the Macedonian Tax Law. Final taxes on profit of 15% are payable based on the annual profit shown in the statutory statement of income as adjusted for items, which are non-assessable or disallowed. According to the changes in the tax legislation adopted during 2001, legal entities may use the tax losses of the current period either to recover tax paid within a specific carry-back period or to reduce or eliminate tax to be paid in future periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rate of 15% is used in determination of deferred income tax. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit, against which the temporary differences can be utilized, will be available.

Employee benefits
Pension obligations
The Company has pension scheme as prescribed by the local social security legislation under which it contributes to its employees' post retirement plans. Contributions, based on salaries, are made to the national Pension Fund responsible for the payment of pensions. There is no additional liability regarding these plans.
Post – retirement obligations
The Company provides its retirees an amount equal to three month's average salary according to the related local provisions. No provision has been made at the balance sheet date in respect of this post – retirement obligations, since that amount would not have a material effect on the financial statements.

Provisions
A provision is recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognised for future operating losses.

Revenue recognition
Revenue comprises the fair value for the sale of goods and services, net of value – added tax and discounts. Revenue is recognised as follows:

Sales of goods – wholesale - Sales of goods are recognised when the products are delivered to the customer, the customer has accepted the products and collectibility of related receivables are reasonably assured.

Sales of services - Sales of services are recognised in the period in which services are rendered, by reference to the stage of completion when can be measured reliably. The stage of completion is determined based on surveys of work performed.

Interest income - Interest income is recognized on a time proportion basis that reflects the effective yield on the assets.

Royalty income - Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income - Dividend income is recognized when the right to receive payments is established.

Dividend distribution
Distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period when they are approved by the Company's shareholders.

Commitments and contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the balance sheet date and a reasonable estimate of the amount of the resulting loss can be made.

Subsequent events
Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3 Financial risk management

Financial risk factors
The Company's activities expose it to a variety of financial risks, including credit risk and risks associated with the effects of changes in foreign currency exchange rates and interest rates. The Company's risk management focuses on unpredictability of markets and seeks to minimize potential adverse effects over the Company's business performance.

Risk management is carried out by the Board of Directors based on certain pre – approved written policies and procedures that cover overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of appropriate securities and investing excess liquidity.

Market risk
Foreign exchange risk. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro. The Company does not use any instrument to hedge the foreign exchange risk. The Company's Treasury is responsible to maintain adequate net position in each currency and in total and its operations are daily monitored by the Company's management.

Price risk. The Company is exposed to equity securities price risk because of investments held and classified in the balance sheet as available – for – sale at fair value through profit and loss. The Company is not exposed to commodity price risk.

Credit risk
The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any counter party. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, then, availability of funds through adequate credit facilities and ability to collect timely, within the terms established the amounts due from the customers. Due to the dynamic nature of the Company's business, the management aims to maintain flexible funds by keeping committed credit lines available.

Cash flow and fair value interest rate risk
The Company takes on exposure to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company's management is primarily responsible for daily monitoring of the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch. There is significant concentration of interest – bearing funds borrowed from the local financial institutions at the balance sheet date. Fluctuations in market interest rates under which, the funds are borrowed could have adverse effect over the Company's financial performance. At the same time, the Company has no significant placements of its assets in time deposits and highly liquid securities, bearing additional interest income.

Fair value estimation
The fair value of financial assets, such as available – for – sale securities that are traded in active markets is based on quoted market prices, which are current bid prices. The fair value of financial assets that are not traded in an active market is determined using assumptions based on market conditions existing at each balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(All amounts presented in Euros, unless otherwise stated) 12

4 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construct.in progress	Total
At 31 December 2004				
Cost or Valuation	4,017,357	15,479,576	121,762	19,618,695
Accumulated Depreciation	(916,786)	(5,540,620)	-	(6,457,406)
Net Carrying Amount	**3,100,571**	**9,938,956**	**121,762**	**13,161,289**
Year ended 31 December 2005				
Opening Net Carrying Amount	3,100,571	9,938,956	121,762	13,161,289
Translation differences	6,232	20,510	787	27,529
Additions, net of transfers from C.I.P.	134,820	1,030,728	280,244	1,445,792
Disposals	(16,347)	(4,992)	-	(21,339)
Depreciation charge for the year	(96,058)	(669,418)	-	(765,476)
Closing Carrying Amount	**3,129,218**	**10,315,784**	**402,793**	**13,847,795**
At 31 December 2005				
Cost or Valuation	4,144,078	16,484,319	402,793	21,031,190
Accumulated Depreciation	(1,014,860)	(6,168,535)	-	(7,183,395)
Net Carrying Amount	**3,129,218**	**10,315,784**	**402,793**	**13,847,795**

At 31 December 2004 and 2005, there are no items of Company's property pledged to secure funds borrowed from financial institutions. All buildings and equipment are used for Company's own business activities.

5 Intangible assets

	Research & Development costs	Patents & licenses	Total
At 31 December 2004			
Cost or Revaluation	2,246,183	2,414	2,248,597
Accumulated Depreciation	(1,267,537)	(2,414)	(1,269,951)
Net Carrying Amount	**978,646**	**-**	**978,646**
Year ended 31 December 2005			
Opening Net Carrying Amount	978,646	-	978,646
Translation differences	3,028	-	3,028
Additions, net of transfers	1,004,103	-	1,004,103
Amortization charge for the year	(449,748)	-	(449,748)
Closing Net Carrying Amount	**1,536,029**	**-**	**1,536,029**
At 31 December 2005			
Cost or Revaluation	3,256,716	2,419	3,259,135
Accumulated Depreciation	(1,720,687)	(2,419)	(1,723,106)
Net Carrying Amount	**1,536,029**	**-**	**1,536,029**

Total increase of development costs during 2005 in the amount of Eur 1,004,103 consists of capitalized expenses related with research and development of new marble locations. Including in the abovementioned amount, Eur 498,974 relates to providing know – how from the Company's parent.

(All amounts presented in Euros, unless otherwise stated) 13

6 Available – for – sale investments

	2005	2004
Equity securities		
- Listed	159,388	245,693
Interest in share capital		
- Foreign companies	1,669,916	698,434
	1,829,304	**944,127**

Following table summarizes the movement of investments in securities:

	2005	2004
Balance, 01 January	944,127	245,721
Translation differences	2,764	(68)
Additions	969,123	698,474
Disposals	(86,710)	-
Balance, 31 December	**1,829,304**	**944,127**

At 31 December 2005, total investments in equity securities consist of 9,195 ordinary shares (2004: 14,195 ordinary shares) with one local commercial bank with nominal value of 1,000 Denars (2004: 5,310 Denars at par). During 2005, the Company sold 5,000 ordinary shares for Eur 283,415, the carrying value of which amounted Eur 86,710. Related gain amounting Eur 196,705 is recognized in the current period income.

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. During the year ended 31 December 2005, the Company has increased its investment up to USD 1,970,000. Up to the end of 2005, the Company deposited in total US Dollars 1,770,000 and is liable to pay the rest of the total charge, amounting US Dollars 200,000, no later than 31 March 2006.

Total dividends received during 2005 amount Eur 22,257 (2004: Eur 17,375) - (see also Note 17 - Financial result, net).

7 Inventories

	2005	2004
Raw materials	237,079	449,837
Spare parts	416,245	528,303
Non-finished products	5,530,755	7,015,987
Finished products	23,734	22,268
Trade goods	147,570	103,018
Other	23,358	62,349
	6,378,741	**8,181,762**

(All amounts presented in Euros, unless otherwise stated) 14

8 Trade and other receivables

	2005	2004
Trade receivables		
Local debtors	2,123,921	1,931,191
Foreign debtors	9,881,183	5,041,680
Related party's receivables	4,662,517	5,617,993
	16,667,621	**12,590,864**
Prepayments		
Prepaid VAT	22,999	16,688
Overpaid income tax	58,714	-
Advances to suppliers	20,596	18,450
	102,309	**35,138**
Other current receivables		
Advances to and receivables from employees	2,664	3,899
Other sundry receivables	75,271	215,449
	77,935	**219,348**
	16,847,865	**12,845,350**
Less: provision for impairment	(99,693)	(99,755)
Receivables and prepayments, net	**16,748,172**	**12,745,595**

9 Cash and cash equivalents

	2005	2004
Bank accounts	8,451	18,189
Cash on hand	3,351	10,555
	11,802	**28,744**

10 Shareholders' equity

Shares issued

Authorized, issued and fully paid ordinary shares Eur.1 at par	**Number of shares**	**Ordinary shares** (Euros)	**Share premium** (Euros)	**Total** (Euros)
At 01 January 2004	4,218,158	4,218,158	1,400,794	5,618,952
Translation differences	-	-	(816)	(816)
Shares issued	468,700	468,700	2,740,717	3,209,417
At 31 December 2004 / 01 January 2005	**4,686,858**	**4,686,858**	**4,140,695**	**8,827,553**
Translation differences	-	-	17,618	17,618
At 31 December 2005	**4,686,858**	**4,686,858**	**4,158,313**	**8,845,171**

The structure of share capital at 31 December 2004 and 2005, is as follows (amounts in Eur):

	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
	4,686,858	**4,686,858**	**100.00**

(All amounts presented in Euros, unless otherwise stated) 15

Shareholders' equity (continued)

Revaluation surplus

Revaluation surplus, which at 31 December 2005 amounts Eur 2,053,748 (2004: Eur 2,049,657) was initialy created during 2002, based upon the independent valuation of groups of Company's property, plant and equipment.

Reserves

Reserves, which at 31 December 2005 amounts Eur 7,094,000 (2004: Eur 6,814,617), are created during the years by allocation of parts of the net income after tax. According to the prevailing local legal regulations, the Company is required to set aside each year, 15% from its annual net income after tax, until the level of such reserves reach 20% of the registered capital. Until the required minimum level is reached, reserves can be used only for covering of losses from operations, after which, the amounts in excess of the minimum required level, upon Company's Assembly decision, can be distributed for dividends to the shareholders and/or for purchase of its own shares.

During 2005, based on the Decision of the Shareholders' Assembly, part of the retained earnings amounting Eur 265,518 were allocated into other reserves.

Dividends

At 26 April 2005 and according to the Shareholders's Assembly Decision no. 02-439/1, part of the retained earnings amounting Eur 2,817,964 were allocated for dividends to shareholders. During the year ended 31 December 2005, the Company has paid to its shareholders dividends in the total amont of Eur 2,466,700.

11 Borrowings

	2005	2004
Long – term interest bearing loans from banks		
EBRD (Eur.5,000,000; eurib.+3.5%)	-	5,000,816
Komercijalna Banka ad, Skopje (Eur.2,200,000; 6m.eurib.+3.5%)	3,000,000	-
Komercijalna Banka ad, Skopje (Eur.5,000,000; 6m.eurib.+3.5%)	5,000,000	-
	8,000,000	**5,000,816**
Short – term interest bearing loans from banks		
Stopanska Banka ad, Skopje (eur.3,500,000; 6m.eurib.+5.25%)	2,003,272	2,001,631
LHB Handelsbank Frankfurt (eur.1,500,000: 3m.eurib.+5.00%)	1,500,000	-
	3,503,272	**2,001,631**

The loan repayment schedule is as follows:

Failing due within 1 – 2 years	7,000,000
Failing due within 2 – 5 years	4,503,272
	11,503,272

(All amounts presented in Euros, unless otherwise stated) 16

12 Deferred tax liabilities

	2005	2004
Deferred tax assets	-	-
Deferred tax liabilities:		
Recognition of revaluation surplus on valued tangible assets	467,538	521,517
Reversal of prior period charges	-	(54,910)
Implementation of different (lower) depreciation rates	94,985	22,887
	562,523	**489,494**
Deferred tax liabilities, net	**(562,523)**	**(489,494)**

Movement in the deferred tax account is as follows:

	2005	2004
Balance, 01 January	**489,494**	**521,576**
Charged to income statement		
Implementation of different (lower) depreciation rates	71,980	22,889
Reversal of prior period charges	-	(54,913)
Translation differences	1,049	(58)
Balance, 31 December	**562,523**	**489,494**

13 Trade and other payables

	2005	2004
Trade creditors		
Local suppliers	1,257,006	1,908,793
Foreign suppliers	56,278	342,626
Related party's payables	961,720	1,357,210
	2,275,004	**3,608,629**
Other current liabilities		
Payables for acquisition of securities	169,535	412,202
Liabilities to employees	216,598	225,139
Dividends payables	551,261	203,393
Interest payable	51,391	81,126
Customers' prepayments	71,071	63,018
Other	255,225	198,729
	1,315,081	**1,183,607**
	3,590,085	**4,792,236**

14 Sales

	2005	2004
Local market	1,436,211	3,035,736
Foreign markets:		
- Greece	5,552,125	3,132,300
- Cyprus	5,866,353	4,480,044
- Other markets	1,079,722	542,624
	12,498,200	8,154,968
	13,934,411	**11,190,704**

(All amounts presented in Euros, unless otherwise stated)

15 Other operating income

	2005	2004
Gains on securities sold	196,705	-
Raw materials sold	114,633	-
Payable's write offs and stock count surplus	52,777	-
Income from rents	27,123	-
Gains on tangible assets sold	14,664	-
Income from tangible assets sold	7,871	-
Collected bad debts	261	-
Release of provision for impairment on trade debts	-	582,904
Income from reversal of prior year's charges	-	378,211
Other income	5,226	52,059
	419,260	**1,013,174**

16 Staff costs

	2005	2004
Net salaries	1,445,111	1,561,884
Personal tax and mandatory contributions	997,405	1,076,587
Other allowances	306,211	334,962
	2,748,727	**2,973,433**

17 Financial result, net

	2005	2004
Income		
Dividend income	22,257	17,375
Interest income	6,450	-
Foreign exchange gains and transaltion differences	241,068	109,794
Expense		
Interest (expense)	(593,610)	(598,729)
Bank (charges)	(63,767)	(49,530)
Foreign exchange loses	(54,994)	(49,660)
Financial result, net	**(442,596)**	**(570,750)**

18 Income tax expense

	2005	2004
Current tax expense	361,258	412,063
Deferred tax expense / (benefit)	71,980	(32,025)
	433,238	**380,038**

Income tax expense (continued)

Following is the reconciliation of the total income tax expense to the profit as per income statement for the year ended 31 December 2004 and 2003:

	2005	2004
Profit before tax	4,169,097	4,225,837
Tax at 15% rate of (2004: 15%)	537,877	633,870
Adjusted for:		
Origination and reversal of temporary differences	71,980	(32,025)
Non – deductible charges	26,666	-
Non – taxable income	(33,508)	(30,279)
Re – invested profits from prior periods	(169,779)	(191,528)
Tax charge	**433,238**	**380,038**

19 Related party transactions

Balances and transactions with related parties

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 bellow provides for the volume and balances from the related party transactions as of and for the years ended 31 December 2005 and 2004.

	Receivables	**Payables**	**Revenues**	**Purchases**
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 31 December 2005	**4,126,256**	**-**	**5,371,167**	**2,700,403**
- 31 December 2004	344,383	83,197	492,493	230,100

20 Earnings per share

Basic

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

	2005	2004
Profit attributable to equity holders of the Company	3,735,859	3,845,799
Weighted average number of ordinary shares (in thousands)	4,687	4,602
Basic earnings per share (Euros per share)	**0.80**	**0.84**

21 Concession agreements

During 2000 and 2001, the Company and the Ministry of Economy of the Republic of Macedonia have signed several concession agreements for the purpose of research and exploitation of local marble resources. Under the initial provisions, the Company is awarded with concession on the above-mentioned activities for a period of 30 years.

Following are the basic provisions as set out in the concession agreements under which, the Company is liable on:

- Annual fee in the amount of Denar 60 thousand per square kilometer or in total for all agreements in the amount of Denar 180,000 thousands, and
- Concession fee on quantities produced at 5% from the total value of excavated quantities, according to the Methodology determined by the Ministry of Economy.