

Interim financial statements and independent auditors' review report
FHL Mermeren kombinat a.d., Prilep
As of and for the six months period ended 30 June 2006

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Independent auditors' review report

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

We have reviewed the accompanying financial statements of FHL Mermeren Kombinat a.d., Prilep ("The Company") as of and for the six months period ended 30 June 2006 and included on pages 2 to 19. 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,
July 31 2006

Balance sheet

(Amounts in EUR)			
	Note	At 30 June 2006	At 31 December 2005
Assets			
Non-current assets			
Property, plant and equipment	4	13,184,861	13,847,795
Intangible assets	5	1,209,826	1,536,029
Available – for – sale investments	6	1,670,020	1,829,304
		16,064,707	17,213,128
Current assets			
Inventories	7	6,340,674	6,378,741
Trade and other receivables	8	17,834,917	16,748,172
Cash and cash equivalents	9	289,469	11,802
		24,465,060	23,138,715
Total assets		40,529,767	40,351,843
Shareholders' equity	10		
Share capital		8,845,171	8,845,171
Reserves		7,310,137	7,094,000
Revaluation surplus		2,113,574	2,053,748
Retained earnings		4,410,650	6,471,310
Total shareholders' equity		22,679,532	24,464,229
Liabilities			
Non – current liabilities			
Interest – bearing borrowings	11	7,500,004	8,000,000
Deferred tax liabilities	12	-	562,523
		7,500,004	8,562,523
Current Liabilities			
Interest – bearing borrowings	11	4,093,955	3,503,272
Trade and other payables	13	5,243,576	3,590,085
Liabilities for taxes		1,012,700	231,734
		10,350,231	7,325,091
Total liabilities		17,850,235	15,887,614
Total liabilities and shareholders' equity		40,529,767	40,351,843

These financial statements have been approved by the Board of Directors on 30 June 2006 and signed on its behalf by,

Mr. Srgjan Krstic,
General Executive Director,

See accompanying notes to the financial statements

Statement of income

		(Amounts in EUR)	
		Six months period ended 30 June	
	Note	2006	2005
Sales	14	6,842,356	6,488,301
Cost of sales	15	(4,800,445)	(4,630,726)
Gross profit		2,041,911	1,857,575
Administrative and selling (expenses)	16	(735,697)	(603,767)
Other operating income	17	519,763	94,574
Profit from operations		1,825,977	1,348,382
Financial (charges), net	19	(338,438)	(177,925)
Profit before income tax		1,487,539	1,170,457
Income tax (expense)	20	(64,944)	(87,217)
Net profit for the period		1,422,595	1,083,240
Attributable to:			
Holders of ordinary shares	22	1,422,595	1,083,240
Earnings per share (expressed in Euros per share)	22	0,30	0.23

Statement of changes in equity

	(Amounts in Eur)				
	Share Capital	Reserves	Revaluat. Surplus	Retained earnings	Total
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
At 01 January 2006	8,845,171	7,094,000	2,053,748	6,471,310	24,464,229
Reconciliation	-	76,384	59,826	(258,640)	(122,430)
Net profit for the period ended 30 June 2006	-	-	-	1,422,595	1,422,595
Dividends declared	-	-	-	(3,084,862)	(3,084,862)
Allocation of profits	-	139,753	-	(139,753)	-
At 30 June 2006	8,845,171	7,310,137	2,113,574	4,410,650	22,679,532

Statement of cash flows

	Note	(Amounts in EUR)	
		Six months period ended 30 June 2006	2005
Operating			
Net profit before tax		1,487,539	1,170,457
<u>Adjusted for:</u>			
Depreciation and amortization		638,813	840,184
Gains on securities & tangibles sold		(403,851)	
Impairment charges on trade debts			4,045
Income on fixed assets sold			(7,862)
Net carrying amount of property, plant and equipment sold			4,991
Interest income		(280,960)	
Interest expense & bank charges		626,536	
Net finance costs			248,798
Operating profit before working capital changes		2,068,077	2,260,613
<u>Changes in working capital:</u>			
Inventories		38,463	747,160
Trade and other receivables		(1,142,305)	(159,933)
Trade and other payables		(750,507)	(1,156,805)
Cash from / (used in) operations		213,728	1,691,035
Interest paid		(626,537)	(265,338)
Income tax paid		(64,944)	(87,217)
		(477,753)	1,338,480
Investing			
Purchase of equipment and intangibles		(149,737)	(815,505)
Proceeds from equipment sold		563,452	7,862
Purchase of securities			(312,331)
Interest received		280,939	408
Dividends received			22,216
		694,654	(1,097,350)
Financing			
Proceeds from / (repayment of) borrowings		89,965	2,206,329
Dividends paid		(29,199)	(2,461,815)
		60,766	(255,486)
Translation differences			-
Net change in cash and cash equivalents		277,667	(14,356)
Cash and cash equivalents at beginning	9	11,802	28,744
Cash and cash equivalents at end	9	289,469	14,388

See accompanying notes to the financial statements

Notes to the financial statements

30 June 2006

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 30 June 2006 employs 406 persons (2005: 399).

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 six months period ended 30 June 2006 and 2005 and as of 31 December 2005. 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:

	30 June 2006	30 June 2005	31 December 2005
1 USD	48.8260 Denars	50.8574 Denars	51.8589 Denars
1 EUR	61.1741 Denars	61.3035 Denars	61.1779 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.

4 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construct.in progress	Total
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
Six months period ended 30 June 2006				
Opening Net Carrying Amount	3,129,218	10,315,784	402,793	13,847,795
Reconsillation	577,365	(1,077,987)	16	(500,606)
Translation differences	231	590	8	829
Additions, net of transfers from C.I.P.	36,045	113,692	-	149,737
Disposals	-	-	-	-
Depreciation charge for the year	(50,806)	(262,088)	-	(312,894)
Closing Carrying Amount	3,692,053	9,089,991	402,817	13,184,861
At 30 June 2006				
Cost or Valuation	4,767,165	14,906,178	402,817	20,076,160
Accumulated Depreciation	(1,075,112)	(5,816,187)	-	(6,891,299)
Net Carrying Amount	3,692,053	9,089,991	402,817	13,184,861

At 30 June 2006 and 31 December 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 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
Six months period ended 30 June 2006			
Opening Net Carrying Amount	1,536,029	-	1,536,029
Reconsillation	(360)	-	(360)
Translation differences	96	-	96
Additions, net of transfers	-	-	-
Amortization charge for the year	(325,939)	-	(325,939)
Closing Net Carrying Amount	1,209,826	-	1,209,826
At 30 June 2006			
Cost or Revaluation	3,256,558	-	3,256,558
Accumulated Depreciation	(2,046,732)	-	(2,046,732)
Net Carrying Amount	1,209,826	-	1,209,826

6 Available – for – sale investments

	30 June 2006	31 December 2005
Equity securities		
- Listed	-	159,388
Interest in share capital		
- Foreign companies	1,670,020	1,669,916
	1,670,020	1,829,304

Following table summarizes the movement of investments in securities:

	2006	2005
Balance, 01 January	1,829,304	944,127
Translation differences	104	2,764
Additions	-	969,123
Disposals	(159,388)	(86,710)
Balance, 30 June 2006 / 31 December 2005	1,670,020	1,829,304

During 2006, the Company sold 9,195 ordinary shares for Eur 563,489, the carrying value of which amounted Eur 159,388. Related gain amounting Eur 404,101 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. and this amount which is paid as of 30 June 2006.

7 Inventories

	30 June 2006	31 December 2005
Raw materials	217,821	237,079
Spare parts	439,778	416,245
Non-finished products	5,477,741	5,530,755
Finished products	22,657	23,734
Trade goods	142,856	147,570
Other	39,821	23,358
	6,340,674	6,378,741

8 Trade and other receivables

	30 June 2006	31 December 2005
Trade receivables		
Local debtors	2,205,786	2,123,921
Foreign debtors	9,734,790	9,881,183
Related party's receivables	5,563,743	4,662,517
	17,504,319	16,667,621
Prepayments		
Prepaid VAT	119,528	22,999
Overpaid income tax	-	58,714
Advances to suppliers	192,287	20,596
	311,815	102,309
Other current receivables		
Advances to and receivables from employees	14,140	2,664
Other sundry receivables	104,342	75,271
	118,482	77,935
	17,934,616	16,847,865
Less: provision for impairment	-99,699	(99,693)
Receivables and prepayments, net	17,834,917	16,748,172

9 Cash and cash equivalents

	30 June 2006	31 December 2005
Bank accounts	282,342	8,451
Cash on hand	7,127	3,351
	289,469	11,802

10 Shareholders' equity

Shares issued

	Number of shares	Ordinary shares	Share premium	Total
<i>Authorized, issued and fully paid ordinary shares Eur.1 at par</i>		(Euros)	(Euros)	(Euros)
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 / 01 January 2006	4,686,858	4,686,858	4,158,313	8,845,171
At 30 June 2006	4,686,858	4,686,858	4,158,313	8,845,171

The structure of share capital at 30 June 2006 and 31 December 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

Shareholders' equity (continued)

Revaluation surplus

Revaluation surplus, which at 30 June 2006 amounts Eur 2,113,574 (31 December 2005: Eur 2,053,748) was initially created during 2002, based upon the independent valuation of groups of Company's property, plant and equipment.

During the period ended 30 June 2006, changes in this account escape from the inventory of fixed assets.

Reserves

Reserves, which at 30 June 2006 amounts Eur 7,310,137 (31 December 2005: Eur 7,094,000), 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 the period ended 30 June 2006, based on the Decision of the Shareholders' Assembly, part of the retained earnings amounting Eur 139,753 were allocated into other reserves.

Dividends

At 30.06.06 and according to the Shareholders's Assembly Decision no. 02-824/5, part of the retained earnings amounting Eur 3,084,862 were allocated for dividends to shareholders. During the period ended 30 June 2006, the Company has paid to its shareholders dividends in the total amount of Eur 29,179 (year ended 31 December 2005: Eur 2,466,700).

11 Borrowings

	30 June 2006	31 December 2005
<u>Long – term interest bearing loans from banks</u>		
EBRD (Eur.5,000,000; eurib.+3.5%)		-
Komercijalna Banka ad, Skopje (Eur.2,200,000; 6m.eurib.+3.5%)	2,999,995	3,000,000
Komercijalna Banka ad, Skopje (Eur.5,000,000; 6m.eurib.+3.5%)	4,500,009	5,000,000
	7,500,004	8,000,000
<u>Short – term interest bearing loans from banks</u>		
Stopanska Banka ad, Skopje (eur.3,500,000; 6m.eurib.+5.25%)	2,003,266	2,003,272
LHB Handelsbank Frankfurt (eur.1,500,000; 3m.eurib.+5.00%)	1,250,006	1,500,000
Komercijalna Banka ad, Skopje (den.25,000,000;8.5%)	350,279	
Komercijalna Banka ad, Skopje (den.30,000,000; 8.5%)	490,404	
	4,093,955	3,503,272

The loan repayment schedule is as follows:

Falling due within 1 – 2 years	2,999,995	1,500,000
Falling due within 2 – 5 years	4,500,009	6,500,000
	7,500,004	8,000,000

12 Deferred tax liabilities

	30 June 2006	31 December 2005
Deferred tax assets	-	-
Deferred tax liabilities:		
Recognition of revaluation surplus on valued tangible assets	-	467,538
Reversal of prior period charges	-	-
Implementation of different (lower) depreciation rates	-	94,985
	-	562,523
Deferred tax liabilities, net	-	(562,523)

Movement in the deferred tax account is as follows:

	2006	2005
Balance, 01 January	562,523	489,494
<i>Charged to income statement</i>		
Implementation of different (lower) depreciation rates	-	71,980
Reversal of prior period charges	(562,523)	-
Translation differences	-	1,049
Balance, 30 June 2006 / 31 December 2005	-	562,523

13 Trade and other payables

	30 June 2006	31 December 2005
Trade creditors		
Local suppliers	1,038,544	1,257,006
Foreign suppliers	426,341	56,278
Related party's payables	-	961,720
	1,464,885	2,275,004
Other current liabilities		
Payables for acquisition of securities	-	169,535
Liabilities to employees	220,110	216,598
Dividends payable	2,928,380	551,261
Interest payable	40,883	51,391
Customers' prepayments	93,013	71,071
Other	496,305	255,225
	3,778,691	1,315,081
	5,243,576	3,590,085

14 Sales

	Six months period ended 30 June 2006	2005
Local market	572,398	666,745
Foreign markets:		
- Greece and Cyprus	4,692,699	5,216,224
- Other markets	1,577,259	605,332
	6,842,356	5,821,556
		6,488,301

15 Cost of sales

	Six months period ended 30 June	
	2006	2005
<i>Finished products and work in progress</i>		
Balance, at 01 January	5,554,646	7,038,254
Add: Total production for the period	4,746,012	4,119,979
Less: Balance, at 30 June	-5,500,213	(6,527,507)
Cost of sales	4,800,445	4,630,726

16 Administrative and selling expenses

	Six months period ended 30 June	
	2006	2005
Materials, supplies and utilities	43,105	44,302
Depreciation	126,766	79,339
Staff costs	120,227	121,390
Services	94,711	102,403
Customers' discounts	108,686	108,764
Marketing and propotion	59,582	11,467
Taxes and other levies	19,942	9,787
Net carrying amount of properties sold	-	4,991
Allowance for bad debts	-	4,306
Other expenses	162,678	117,018
	735,697	603,767

17 Other operating income

	Six months period ended 30 June	
	2006	2005
Gains on securities sold	403,851	-
Raw materials sold	84,233	67,807
Payable's write offs and stock count surplus	-	-
Income from rents	18,095	9,036
Gains on tangible assets sold	-	-
Income from tangible assets sold	-	7,862
Collected bad debts	-	261
Release of provision for impairment on trade debts	-	-
Income from reversal of prior year's charges	-	-
Other income	13,584	9,608
	519,763	94,574

18 Staff costs

	Six months period ended 30 June	
	2006	2005
Net salaries	706,715	721,095
Personal tax and mandatory contributions	485,435	499,390
Other allowances	136,132	139,283
	1,328,282	1,359,768

19 Financial (charges), net

	Six months period ended 30 June	
	2006	2005
<u>Income</u>		
Dividend income	-	22,216
Interest income	280,960	408
Foreign exchange gains / (losses) and translation differences, net	7,155	79,371
<u>Expense</u>		
Interest (expense)	(579,198)	(256,856)
Bank (charges)	(47,355)	(23,064)
Financial (charges), net	(338,438)	(177,925)

20 Income tax expense

	Six months period ended 30 June	
	2006	2005
Current tax expense	64,944	87,217
Deferred tax expense / (benefit)	-	-
	64,944	87,217

Following is the reconciliation of the total income tax expense to the profit as per income statement for the six months period ended 30 June 2006 and year ended 31 December 2005:

	Six months period ended 30 June	
	2006	2005
Profit before tax	1,487,539	1,170,457
Tax at 15% rate of (2005: 15%)	223,131	175,569
<i>Adjusted for:</i>		
Origination and reversal of temporary differences	-	-
Non – deductible charges	-	-
Non – taxable income	-	-
Re – invested profits from prior periods	-	-
Prepaid income tax carried forward	(158,187)	(88,352)
Tax charge	64,944	87,217

21 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 below provides for the volume and balances from the related party transactions as of and for the six months period ended 30 June 2006 and as of and for the year ended 31 December 2005.

	At 30 June 2006 / 31 December 2005		Six months period ended 30 June	
	Receivables	Payables	Revenues	Purchases
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 2006	5,562,903	-	4,479,000	1,070,553
- 2005	4,126,256	-	241,621	1,214,776

22 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.

	Six months period ended 30 June 2006	2005
Profit attributable to equity holders of the Company	1,422,595	1,083,240
Weighted average number of ordinary shares (in thousands)	4,687	4,687
Basic earnings per share (Euros per share)	0,30	0,23

23 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 70 thousand per square kilometer or in total for all agreements in the amount of Denar 210,000 thousands, and
- Concession fee on quantities produced at 4% from the total value of sold quantities, according to the Methodology determined by the Ministry of Economy.