Financial statements and independent auditors' report
FHL Mermeren kombinat a.d., Prilep
31 December 2006 and 2005

Contents

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") which comprise Balance sheets as of 31 December 2006 and 2005 and Income statements, Statements of changes in equity and cash flow Statements for the years then ended and a summary of significant accounting policies and other explanatory notes. These financial statements, included on pages 2 to 21, 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 2006 and 2005, and the financial performance and its cash flows for the years than ended, in accordance with International Financial Reporting Standards.

Grant Thornton

Skopje,
February 03 2007

Balance sheets

(Amounts in EUR)

	Note	At 31 December 2006	2005
Assets			
Non-current assets			
Property, plant and equipment	4	**12,999,603**	13,847,795
Intangible assets	5	**884,214**	1,536,029
Available – for – sale investments	6	**1,670,020**	1,829,304
		15,553,837	17,213,128
Current assets			
Inventories	7	**5,966,692**	6,378,741
Trade and other receivables	8	**16,416,065**	16,748,172
Cash and cash equivalents	9	**1,945**	11,802
		22,384,702	23,138,715
Total assets		**37,938,539**	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		**5,300,699**	6,471,310
Total shareholders' equity		**23,569,581**	24,464,229
Liabilities			
Non – current liabilities			
Interest – bearing borrowings	11	**8,500,002**	8,000,000
Deferred tax liabilities	12	**-**	562,523
		8,500,002	8,562,523
Current Liabilities			
Interest – bearing borrowings	11	**355,772**	3,503,272
Trade and other payables	13	**4,373,911**	3,590,085
Liabilities for taxes	14	**1,139,273**	231,734
		5,868,956	7,325,091
Total liabilities		**14,368,958**	15,887,614
Total liabilities and shareholders' equity		**37,938,539**	40,351,843

These financial statements have been approved by the Board of Directors on January 31 2007 and signed on its behalf by,

Mr. Ilias Kiriakidis
General Executive Director

Statements of income

(Amounts in EUR)

	Note	Year ended 31 December 2006	2005
Sales	**15**	**13,376,144**	13,934,411
Cost of sales	**16**	**(8,954,868)**	(8,641,076)
Gross profit		**4,421,276**	5,293,335
Administrative and selling expenses	**17**	**(1,839,954)**	(1,100,902)
Other operating income	**19**	**542,321**	222,555
Profit from operations		**3,123,643**	4,414,988
Financial result, net	**20**	**(436,913)**	(245,891)
Profit before income tax		**2,686,730**	4,169,097
Income tax (expense)	**21**	**(374,085)**	(433,238)
Net profit		**2,312,645**	3,735,859
Attributable to:			
Holders of ordinary shares	**23**	**2,312,645**	3,735,859
Earnings per share (expressed in Euros per share)	**23**	**0.49**	0.80

Statements 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 retained earnings	-	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
Re – evaluation of property,plant and equip.	-	-	59,826	-	59,826
Additional tax liabilities	-	-	-	(182,257)	(182,257)
Reconciliation of reserves and ret.earnings	-	76,384	-	(76,384)	-
Profit for the year	-	-	-	2,312,645	2,312,645
Dividends declared	-	-	-	(3,084,862)	(3,084,862)
Allocation of retained earnings	-	139,753	-	(139,753)	-
At 31 December 2006	**8,845,171**	**7,310,137**	**2,113,574**	**5,300,699**	**23,569,581**

Statements of cash flows

(Amounts in EUR)

	Note	Year ended 31 December 2006	2005
Operating			
Net profit before tax		**2,686,730**	4,169,097
Adjusted for:			
Depreciation and amortization	**4,5**	**1,509,086**	1,215,224
Gains on securities sold	**20**	**(403,781)**	(211,369)
Impairment charges on trade debts	**17**	**16,559**	-
Write offs of dividends payable	**19**	**(162,879)**	-
Income on fixed assets sold		**-**	(7,871)
Dividend income		**-**	(22,257)
Interest income	**20**	**(283,101)**	(6,450)
Interest expense, bank fees and net fx gains	**20**	**1,123,795**	657,377
Operating profit before working capital changes		**4,486,409**	5,793,751
Changes in working capital:			
Inventories	**7**	**412,049**	1,803,021
Trade and other receivables	**8**	**315,548**	(3,943,863)
Trade and other payables	**13**	**(762,741)**	(1,215,303)
Cash from / (used in) operations		**4,451,265**	2,437,606
Interest paid		**(1,122,568)**	(657,377)
Income tax paid		**(480,052)**	(419,972)
		2,848,645	1,360,257
Investing			
Purchase of equipment	**4**	**(509,088)**	(2,449,895)
Proceeds from equipment sold		**-**	43,874
Purchase of securities		**-**	(969,123)
Proceeds from securities sold	**6**	**563,169**	283,415
Interest received	**20**	**283,101**	6,450
Dividends received		**-**	22,257
		337,182	(3,063,022)
Financing			
(Repayment of) / proceeds from borrowings	**11**	**(2,647,499)**	4,500,825
Dividends paid	**10**	**(547,815)**	(2,817,964)
		(3,195,314)	1,682,861
Translation differences		**(370)**	2,962
Net change in cash and cash equivalents		**(9,857)**	(16,942)
Cash and cash equivalents at beginning	**9**	**11,802**	28,744
Cash and cash equivalents at end	**9**	**1,945**	11,802

Notes to the financial statements 31 December 2006 and 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 31 December 2005 and 2006, 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 2006 employs 392 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 accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the presentation of certain long-term assets at their valuation.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

These financial statements are prepared as of and for the years ended 31 December 2006 and 2005. Current and comparative data are presented in Euros unless otherwise stated. Where necessary, comparative figures have been reconciled to conform with the changes in presentation for the current year.

Basis of preparation (continued)

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Company's operations:

- IAS 19 (Amendment), Employee Benefits,
- IAS 21 (Amendment), Net Investment in a Foreign Operation,
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions,
- IAS 39 (Amendment), The Fair Value Option,
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts,
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources,
- IFRS 6, Exploration for and Evaluation of Mineral Resources,
- IFRIC 4, Determining whether an Arrangement contains a Lease and IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds,
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but that the Company has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after1 january 2007),
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006),
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

Interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Company's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006), and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- Income and expenses for each income statement are translated at average exchange rates, and
- 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 2006	31 December 2005
1 USD	46.4496 Denars	51.8589 Denars
1 EUR	61.1741 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

- Ordinary shares are classified as equity.
- Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.
- 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)

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**
Year ended 31 December 2006				
Opening Net Carrying Amount	3,129,218	10,315,784	402,793	13,847,795
Re – evaluation	577,382	(1,077,971)	16	(500,573)
Translation differences	230	590	9	829
Additions, net of transfers from C.I.P.	199,480	295,795	13,813	509,088
Depreciation charge for the year	(106,418)	(751,118)	-	(857,536)
Closing Carrying Amount	**3,799,892**	**8,783,080**	**416,631**	**12,999,603**
At 31 December 2006				
Cost or Valuation	4,893,198	15,033,764	416,631	20,343,593
Accumulated Depreciation	(1,093,306)	(6,250,684)	-	(7,343,990)
Net Carrying Amount	**3,799,892**	**8,783,080**	**416,631**	**12,999,603**

During the year ended 31 December 2006, the Company has re – evalued the net carrying amount of its properties. This was made based on the detailed review of the initial valuation results originated as of the end of 2002. Decrease, amounting Eur. 500,573, was entirely charged against the balance of deferred tax liabilities, which in substance originated as a result of difference between the properties' historic cost and their valuation (see also Note 10: Revaluation surplus and Note 12).

At 31 December 2005 and 2006, 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**
Year ended 31 December 2006			
Opening Net Carrying Amount	1,536,029	-	1,536,029
Translation differences	(265)	-	(265)
Amortization charge for the year	(651,550)	-	(651,550)
Closing Net Carrying Amount	**884,214**	-	**884,214**
At 31 December 2006			
Cost or Revaluation	3,256,558	-	3,256,558
Accumulated Depreciation	(2,372,344)	-	(2,372,344)
Net Carrying Amount	**884,214**	-	**884,214**

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

6 Available – for – sale investments

	2006	2005
Equity securities		
- Listed local financial institutions	**-**	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, 31 December	**1,670,020**	1,829,304

At 31 December 2006, total available – for – sale securities entirely consist of Company's equity interest into Kosmos Building Materials Shanghai Co, China. The original value of this investment at both balance sheet dates amounts US Dollars 1,970,000 (equivalent to Eur 1,670,020 at 31 December 2006 and Eur 1,669,916 at 31 December 2005), and represents 51% interest in the equity of the investee.

At 31 December 2005, total investments in equity securities with listed local financial institutions consist of 9,195 ordinary shares of one local commercial bank, the nominal value of which shares amounts 1,000 Denars at par. During 2006, the Company sold the entire portfolio of its shares for the amount of Eur 563,169, the carrying value of which amounts Eur 159,388. Related gain amounting Eur 403,781 is recognized as investment income in the current year profit and loss (see Note 20).

7 Inventories

	2006	2005
Raw materials	**194,347**	237,079
Spare parts	**428,367**	416,245
Non-finished products	**5,254,773**	5,530,755
Finished products	**4,806**	23,734
Trade goods	**67,202**	147,570
Other	**17,197**	23,358
	5,966,692	6,378,741

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

8 Trade and other receivables

	2006	2005
Trade receivables		
Local debtors	594,925	2,123,921
Foreign debtors	9,142,578	9,881,183
Related party's receivables	6,425,677	4,662,517
	16,163,180	16,667,621
Prepayments		
Prepaid VAT	141,301	22,999
Overpaid income tax	105,993	58,714
Advances to suppliers	58,440	20,596
	305,734	102,309
Other current receivables		
Advances to and receivables from employees	4,888	2,664
Other sundry receivables	40,082	75,271
	44,970	77,935
	16,513,884	16,847,865
Less: provision for impairment	(97,819)	(99,693)
Receivables and prepayments, net	**16,416,065**	16,748,172

Following table provides for the movement of impairment provision account for the years ended 31 December 2005 and 2006:

	2006	2005
At 01 January	**99,693**	99,755
Collected debts previosely fully provided for	**(1,874)**	(62)
At 31 December	**97,819**	99,693

During 2006 and due to their non – recoverability, total of Eur.16,559 (2005: 9,749) has been writen off against current profit and loss (see also Note 17).

9 Cash and cash equivalents

	2006	2005
Bank accounts	**850**	8,451
Cash on hand	**1,095**	3,351
	1,945	11,802

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 2005	**4,686,858**	**4,686,858**	**4,140,695**	**8,827,553**
Translation differences	-	-	17,618	17,618
At 31 December 2005 / 31 December 2006	**4,686,858**	**4,686,858**	**4,158,313**	**8,845,171**

(All amounts presented in Euros, unless otherwise stated)

Shareholders' equity (continued)

The structure of share capital at 31 December 2005 and 2006 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**

Revaluation surplus

Revaluation surplus, which at 31 December 2006 amounts Eur 2,113,574 (31 December 2005: Eur 2,053,748) was initialy created during 2002, based upon the independent valuation of groups of Company's property, plant and equipment. Subsequently, during the year ended 31 December 2006 and according to the detailed review of the initial results from independent valuation, the Company has increased the balance of revaluation surplus for the amount of Eur. 59,826 (see Notes 4 and 12).

Reserves

Reserves, which at 31 December 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.

Total increase of the reserves during 2006, amounting Eur. 216,137 (2005: Eur 265,518) relates to allocation of prior years retained earnings as well as to reconciliation of opening balances of reserves and retained earnings at 01 January 2006.

Additional income tax liability charged to retained earnings

During 2006 and for local statutory purposes, which entirely relates to initial recognition of revaluation surplus on its property, plant and equipment, the Company has recognized additional income tax liability in the total of Eur. 182,257. For the purpose of these IFRS financial statements, the additional tax liability was charged against the retained earnings.

Dividends and management fees

At 11 May 2006 and according to the Shareholders's Assembly Decision no. 02-824/5, part of the prior years retained earnings amounting Eur 3,084,862 (2005: Eur 2,817,964) were allocated for dividends and fees to shareholders and Company's Management. Included into the above gross total, Eur. 479,591 relates to taxes on dividends and fees.

During the year ended 31 December 2006, the Company has paid dividends and fees to its shareholders and Company's Management, in the total gross amount, including related local taxes, of Eur 547,815 (2005: Eur 2,817,964).

(All amounts presented in Euros, unless otherwise stated)

11 Borrowings

	2006	2005
Long – term interest bearing loans from banks		
Komercijalna Banka ad, Skopje (Eur.2,200,000; 6m.eurib.+3.5%)	**2,500,012**	3,000,000
Komercijalna Banka ad, Skopje (Eur.2,000,000; 6m.eurib.+3.5%)	**1,999,997**	5,000,000
Komercijalna Banka ad, Skopje (Eur.5,000,000; 6m.eurib.+3.5%)	**3,999,993**	-
	8,500,002	8,000,000
Short – term interest bearing loans from banks		
Stopanska Banka ad, Skopje (eur.3,500,000; 6m.eurib.+5.25%)	**52,195**	2,003,272
LHB Handelsbank Frankfurt (eur.1,500,000: 3m.eurib.+5.00%)	**-**	1,500,000
Komercijalna Banka ad, Skopje (mkd.25,000,000;8.5%)	**58,375**	-
Komercijalna Banka ad, Skopje (mkd.30,000,000; 8.5%)	**245,202**	-
	355,772	3,503,272

Total loan additions during the year ended 31 December 2006 amounts Eur. 5,181,558 (2005: Eur. 11,501,641). Total loans repaid during the same period amounts Eur. 7,829,057 (2005: Eur. 7,000,000).

The loan repayment schedule is as follows:

	2006	2005
Failing due within 1 – 2 years	**5,355,780**	7,000,000
Failing due within 2 – 5 years	**3,499,994**	4,503,272
	8,855,774	11,503,272

12 Deferred tax liabilities

	2006	2005
Deferred tax assets	-	-
Deferred tax liabilities:		
Recognition of revaluation surplus on valued tangible assets	-	467,538
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
Implementation of different (lower) depreciation rates through P&L	-	71,980
Reversal of prior period charges against P,P&E	(562,523)	-
Translation differences	-	1,049
Balance, 31 December	**-**	562,523

During the year ended 31 December 2006 and according to the detailed review performed over the initial results of independent valuation of its properties, the Company has ofset entirely the balance of its deferred tax liabilities. This was accounted for against the previous balance of the property, plant and equipment' carrying value, as well as the balance of related revaluation surplus (see Notes 4 and 10).

(All amounts presented in Euros, unless otherwise stated) 18

13 Trade and other payables

	2006	2005
Trade creditors		
Local suppliers	869,110	1,257,006
Foreign suppliers	331,071	56,278
Related party's payables	-	961,720
	1,200,181	2,275,004
Other current liabilities		
Dividends payables (net of local taxes)	2,512,697	551,261
Liabilities to employees and management	253,425	216,598
Interest payable	55,040	51,391
Customers' prepayments	62,200	71,071
Payables for acquisition of securities	-	169,535
Other	290,368	255,225
	3,173,730	1,315,081
	4,373,911	3,590,085

At 31 December 2006 and based on the Board of Directors' Decision no. 02 – 191, part of the balance of dividend payables originated prior to 2002 and in the amount of Eur. 162,879 was writen off against current profit and loss (see also Note 19).

14 Liabilities for taxes

	2006	2005
Tax on personal income	**119,103**	47,566
Tax on profit	**383,348**	22,966
Tax on divididends distributed to non – residents	**496,517**	-
Tax penalties	**72,138**	90,049
Tax on concessions and other levies	**68,167**	71,153
	1,139,273	231,734

Tax on dividiend payable to non – residents has been introduced for the first time for the periods commencing on 01 January 2006.

15 Sales

	2006	2005
Local market	**1,160,586**	1,436,211
Foreign markets:		
- Greece and Cyprus	**10,225,252**	11,418,478
- Other markets	**1,990,306**	1,079,722
Sub- total – sales on foreing markets	**12,215,558**	12,498,200
Total sales	**13,376,144**	13,934,411

16 Cost of sales

	2006	2005
Stock of finished products and W.I.P. at 01 January	**5,554,489**	7,038,255
Add: Total production for the year ended 31 December	**8,659,958**	7,157,310
Less: Stock of finished products and W.I.P. at 31 December	**(5,259,579)**	(5,554,489)
	8,954,868	8,641,076

(All amounts presented in Euros, unless otherwise stated)

17 Administrative and selling expenses

	2006	2005
Materials, supplies and utilities	**89,970**	101,749
Depreciation	**257,372**	159,049
Staff costs	**278,655**	206,066
Services	**402,527**	222,228
Customers' discounts	**224,484**	108,885
Marketing and promotion	**133,467**	43,796
Taxes and other levies	**149,781**	18,763
Write off of bad debts	**16,559**	9,749
Other expenses	**287,139**	230,617
	1,839,954	1,100,902

18 Staff costs

	2006	2005
Net salaries	**1,440,647**	1,445,111
Personal tax and mandatory contributions	**983,686**	997,405
Other allowances	**295,786**	306,211
	2,720,119	2,748,727

19 Other operating income

	2006	2005
Raw materials sold	**120,914**	114,633
Payable's write offs and stock count surplus	**183,624**	52,777
Write off of dividend payables	**162,879**	-
Income from rents	**36,191**	27,123
Income from tangible assets sold	**-**	22,535
Other income	**38,713**	5,487
	542,321	222,555

20 Financial result, net

	2006	2005
Income		
Gains on securities sold	**403,781**	196,705
Dividend income	**-**	22,257
Interest income	**283,101**	6,450
Foreign exchange gains and transaltion differences, net	**2,422**	186,074
Expense		
Interest (expense)	**(1,053,142)**	(593,610)
Bank (charges)	**(73,075)**	(63,767)
Financial result, net	**(436,913)**	(245,891)

21 Income tax expense

	2006	2005
Current tax expense	**374,085**	361,258
Deferred tax expense / (benefit)	**-**	71,980
	374,085	433,238

Following is the reconciliation of the total income tax expense to the profit as per income statement for the years ended 31 December 2006 and 2005:

	2006	2005
Profit before tax	**2,686,730**	4,169,097
Tax at 15% rate of (2005: 15%)	**403,009**	537,877
Adjusted for:		
Origination and reversal of temporary differences	**-**	71,980
Non – deductible charges	**65,553**	26,666
Non – taxable income	**(18,184)**	(33,508)
Re – invested profits from prior periods	**(76,293)**	(169,777)
Tax charge	**374,085**	433,238

22 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 2006 and 2005.

	Receivables	**Payables**	**Revenues**	**Purchases**
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 31 December 2006	**6,425,677**	**-**	**9,786,296**	**2,253,607**
- 31 December 2005	4,126,256	-	5,371,167	2,700,403

23 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.

	2006	2005
Profit attributable to equity holders of the Company	**2,312,645**	3,735,859
Weighted average number of ordinary shares (in thousands)	**4,687**	4,687
Basic earnings per share (Euros per share)	**0.49**	0.80

24 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 30 thousand per square kilometer, and
- Concession fee at 0.2% from the total value of quantities sold, according to the Methodology determined by the Ministry of Economy.