



Financial statements and independent auditors' report

FHL Mermeren Kombinat AD, Prilep

31 December 2007

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Independent auditors' report

Grant Thornton DOO
M.H.Jasmin 52 v - 1/7
1000 Skopje
Macedonia

T +389 (2) 3214 700
F +389 (2) 3214 710
www.grant-thornton.com.mk

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 of the Balance sheet as at 31 December 2007, and the Statement of income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 25.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements of the Company present fairly, in all material respects, the financial position as of 31 December 2007, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Skopje,

February 13 2008

Balance sheet

	Note	2007	(Amounts in EUR) At 31 December 2006
Assets			
Non-current assets			
Property, plant and equipment	6	13,702,927	13,883,817
Intangible assets	7	22,548	-
Available – for – sale financial assets	9	1,669,270	1,670,020
		15,394,745	15,553,837
Current assets			
Inventories	11	6,580,531	5,966,692
Trade and other receivables	10	14,247,814	16,416,065
Cash and cash equivalents	12	3,023	1,945
		20,831,368	22,384,702
Total assets		36,226,113	37,938,539
Shareholders' equity	13		
Share capital		8,845,171	8,845,171
Reserves		7,514,753	7,310,137
Revaluation surplus		2,113,574	2,113,574
Retained earnings		3,954,185	5,300,699
Total shareholders' equity		22,427,683	23,569,581
Liabilities			
Non – current liabilities			
Interest – bearing borrowings	14	7,956,524	8,500,002
		7,956,524	8,500,002
Current Liabilities			
Interest – bearing borrowings	14	604,560	355,772
Trade and other payables	15	3,746,699	4,373,911
Liabilities for taxes	16	1,490,647	1,139,273
		5,841,906	5,868,956
Total liabilities		13,798,430	14,368,958
Total liabilities and shareholders' equity		36,226,113	37,938,539

These financial statements have been approved by the Board of Directors on February 13 2008 and signed on its behalf by,

Mr. Ilias Kiriakidis

General Executive Director

Statement of income

	Note	(Amounts in EUR)	
		Year ended 31 December 2007	2006
Sales	17	9,929,308	13,376,144
Cost of sales	18	(6,100,149)	(8,954,868)
Gross profit		3,829,159	4,421,276
Administrative and selling expenses	19	(1,240,426)	(1,839,954)
Other operating income	21	195,333	542,321
Operating profit		2,784,066	3,123,643
Finance income	22	36,277	689,304
Finance costs	22	(883,198)	(1,126,217)
Finance (costs), net		(846,921)	(436,913)
Profit before income tax		1,937,145	2,686,730
Income tax (expense)	23	(269,661)	(374,085)
Net profit		1,667,484	2,312,645
Attributable to:			
Holders of ordinary shares		1,667,484	2,312,645
Earnings per share (expressed in Euros per share)	25	0.36	0.49

Statement of changes in equity

	Share Capital	Reserves	Revaluat. Surplus	Retained earnings	(Amounts in Eur) Total
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)
Profit for the year	-	-	-	2,312,645	2,312,645
Dividends declared	-	-	-	(3,084,862)	(3,084,862)
Allocation of retained earnings	-	216,137	-	(216,137)	-
At 31 December 2006	8,845,171	7,310,137	2,113,574	5,300,699	23,569,581
At 01 January 2007	8,845,171	7,310,137	2,113,574	5,300,699	23,569,581
Profit for the year	-	-	-	1,667,484	1,667,484
Dividends declared	-	-	-	(2,109,504)	(2,109,504)
Allocation of retained earnings	-	204,616	-	(204,616)	-
Other losses recognized in equity	-	-	-	(699,878)	(699,878)
At 31 December 2007	8,845,171	7,514,753	2,113,574	3,954,185	22,427,683

Financial Statements
31 December 2007

Statement of cash flows

		(Amounts in EUR)	
		Year ended 31 December	
	Note	2007	2006
Operating			
Net profit before tax		1,937,145	2,686,730
<u>Adjusted for:</u>			
Depreciation and amortization		1,146,964	1,509,086
Gains on securities sold		-	(403,781)
Impairment charges on trade debts		57,446	16,559
Write offs of dividends payable		-	(162,879)
Interest income		(10,558)	(283,101)
Interest expense, bank fees and net fx gains		883,198	1,123,795
Operating profit before working capital changes		4,014,195	4,486,409
<u>Changes in working capital:</u>			
Inventories		(616,659)	412,049
Trade and other receivables		1,414,398	315,548
Trade and other payables		488,750	(762,741)
Cash from / (used in) operations		5,300,684	4,451,265
Interest paid		(883,198)	(1,122,568)
Income tax paid		(269,661)	(480,052)
		4,147,825	2,848,645
Investing			
Purchase of equipment		(1,077,080)	(509,088)
Proceeds from securities sold		-	563,169
Interest received		10,558	283,101
		(1,066,522)	337,182
Financing			
(Repayment of) / proceeds from borrowings		(294,690)	(2,647,499)
Dividends paid		(2,785,522)	(547,815)
		(3,080,212)	(3,195,314)
Translation differences		(13)	(370)
Net change in cash and cash equivalents		1,078	(9,857)
Cash and cash equivalents at beginning	12	1,945	11,802
Cash and cash equivalents at end	12	3,023	1,945

Notes to the financial statements

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 2007 employs 385 persons (2006: 392).

2 Adoption of new and revised standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Company’s accounting policies.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company’s operations:

- IFRS 4 - Insurance contracts,
- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies, and
- IFRIC 9 - Re-assessment of embedded derivatives.

Adoption of new and revised standards (continued)***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 and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them:

- IAS 23 (Amendment) - Borrowing costs (effective from 1 January 2009). The Company will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Company as there are no qualifying assets.
- IFRS 8 - Operating segments (effective from 1 January 2009). The Company will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- IFRIC 11 - IFRS 2 – Group and treasury share transactions (effective from 1 March 2007). This interpretation does not have an impact on the Company's financial statements.
- IFRIC 12 - Service concession arrangements (effective from 1 January 2008). IFRIC 12 is not relevant to the Company's operations because the Company does not provide for public sector services.
- IFRIC 13 - Customer loyalty programmes (effective from 1 July 2008). IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes.
- IFRIC 14 - IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008). The Company will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Company's accounts.

3 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 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 2007 and 2006. 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 in the current year.

Notes to the financial statements (continued)
Accounting policies (continued)

3.2 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 2007	31 December 2006
1 USD	41.6564 Denars	46.4496 Denars
1 EUR	61.2016 Denars	61.1741 Denars

3.3 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

Notes to the financial statements (continued)
Accounting policies (continued)

Property, plant and equipment (continued)

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.

3.4 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.

3.5 Impairment of non - financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the financial statements (continued)
Accounting policies (continued)

3.6 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

The Company has no assets classified in this category at the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset.

All financial assets that are not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Notes to the financial statements (continued)
Accounting policies (continued)

Financial assets (continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described further within this Note.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.8 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Assets with a short maturity are not discounted. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Notes to the financial statements (continued)
Accounting policies (continued)

3.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3.10 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.

3.11 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

3.13 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the balance sheet date.

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 amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.14 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.

3.15 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.

3.16 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.

Notes to the financial statements (continued)
Accounting policies (continued)

3.17 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.

3.18 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.

3.19 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.

4 Financial risk management

4.1 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.

4.2 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.

4.3 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.

4.4 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.

4.5 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.

Notes to the financial statements (continued)
Financial risk management (continued)

4.6 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4.7 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.

5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

No critical judgements with significant effect on the amounts recognised in financial statements have been made by the Company's management in the process of applying the entity's accounting policies.

Key sources of estimation uncertainty

Under the Company's management opinion, there are no key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

6 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construct.in progress	Total
At 01 January 2006				
Cost or Valuation	7,400,794	16,484,319	402,793	24,287,906
Accumulated Depreciation	(2,735,547)	(6,168,535)	-	(8,904,082)
Net Carrying Amount	4,665,247	10,315,784	402,793	15,383,824
Year ended 31 December 2006				
Opening Net Carrying Amount	4,665,247	10,315,784	402,793	15,383,824
Re – evaluation	577,382	(1,077,971)	16	(500,573)
Translation differences	(35)	590	9	564
Additions, net of transfers from C.I.P.	199,480	295,795	13,813	509,088
Depreciation charge for the year	(757,968)	(751,118)	-	(1,509,086)
Closing Carrying Amount	4,684,106	8,783,080	416,631	13,883,817
At 31 December 2006				
Cost or Valuation	8,149,756	15,033,764	416,631	23,600,151
Accumulated Depreciation	(3,465,650)	(6,250,684)	-	(9,716,334)
Net Carrying Amount	4,684,106	8,783,080	416,631	13,883,817
Year ended 31 December 2007				
Opening Net Carrying Amount	4,684,106	8,783,080	416,631	13,883,817
Translation differences	(2,104)	(3,947)	(187)	(6,238)
Additions, net of transfers from C.I.P.	107,726	1,098,779	(233,540)	972,965
Disposals-net	(1,829)	-	-	(1,829)
Depreciation charge for the year	(387,164)	(758,624)	-	(1,145,788)
Closing Carrying Amount	4,400,735	9,119,288	182,904	13,702,927
At 31 December 2007				
Cost or Valuation	5,996,689	16,065,838	182,904	22,245,431
Accumulated Depreciation	(1,595,954)	(6,946,550)	-	(8,542,504)
Net Carrying Amount	4,400,735	9,119,288	182,904	13,702,927

Construction in progress

Majority of construction in progress balance as of 31 December 2007 amounting 126,745 Euros relates to construction of foundations for TLD 80A and production plant as well as internal transport infrastructure.

Additions during 2007

Total additions during 2007 in the amount of 963,733 Euros consist of processing equipment, measurement instruments, air-conditioning and heating equipment as well as transport equipment. Majority of these additions amounting 471,850 Euros relates to purchase of two processing machines from Company's Parent.

The Company's land and buildings were last revalued during 2006 by independent valuers. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus net of applicable deferred income taxes was credited to 'other reserves in shareholders' equity'

At 31 December 2007 and 31 December 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.

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

7 Intangible assets

At 31 December 2007 intangible assets entirely consists of the newly purchased software during the year, the cost of which amounts 23,725 Euros and the net book value 22,549 Euros. Total depreciation charged for the year ended 31 December 2007 amounts to 1,176 Euros.

Out of the total depreciation and amortization for the year ended 31 December 2007 amounting 1,146,964 Euros, 948,064 Euros has been charged in “cost of sales” and the remaining, in the amount of 198,900 Euros - into administrative and selling expenses.

8 Financial instruments by categories

The carrying amounts of the Company's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows.

	2007	2006
Assets		
Non - current		
AFS financial assets	1,669,270	1,670,020
Current		
Trade and other receivables		
- Loans and receivables	14,247,814	16,416,065
Cash and cash equivalents	3,023	1,945
	14,250,837	16,418,010
Liabilities		
Non - current		
Borrowings		
- Financial liabilities measured at amortized costs	7,956,524	8,500,002
Current		
Borrowings		
- Financial liabilities measured at amortized costs	604,560	355,772
Trade and other payables		
- Financial liabilities measured at amortized costs	3,746,699	4,373,911
	4,351,259	4,729,683

9 Available – for – sale financial assets

	2007	2006
Balance, 01 January	1,670,020	1,829,304
Translation differences	(750)	104
Additions	-	-
Disposals	-	(159,388)
Balance, 31 December	1,669,270	1,670,020

At 31 December 2006 and 2007, total available – for – sale securities entirely consist of Company's equity interest into Kosmos Building Materials Shanghai Co, China - a foreign non - listed legal entity. 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 1,669,270 at 31 December 2007), and represents 51% interest in the equity of the investee.

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

10 Trade and other receivables

	2007	2006
Trade receivables		
Local debtors	399,303	594,925
Foreign debtors	8,722,632	9,142,578
Related party's receivables	4,925,018	6,425,677
	14,046,953	16,163,180
Prepayments		
Expenses allocated on several years	2,484	40,050
Prepaid VAT	38,087	141,301
Overpaid income tax	88,641	105,993
Advances to suppliers	17,107	58,440
	146,319	345,784
Other current receivables		
Advances to and receivables from employees	152,317	4,920
	152,317	4,920
	14,345,589	16,513,884
Less: provision for impairment	(97,775)	(97,819)
Receivables and prepayments, net	14,247,814	16,416,065

At 31 December 2007 the age structure of trade receivables is as follows:

	Domestic trade receivables	Foreign trade receivables	Advances	Total
Up to 30 days	16,552	873,736	1,764	892,052
From 1-3 months	44,574	1,305,603	-	1,350,177
From 3-6 months	1,356	647,908	-	649,264
From 6-12 months	14,477	1,429,685	2,696	1,446,858
Over 1 year	322,344	8,675,508	12,647	9,010,499
	399,303	12,932,440	17,107	13,348,850
Less : provision for impairment	(97,775)	-	-	(97,775)
	301,528	12,932,440	17,107	13,251,075

At 31 December 2007 the credit quality of Company's trade receivables can be analysed as follows:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cost	892,052	12,359,023	97,775	13,348,850
Less: Impairment provision	-	-	(97,775)	(97,775)
	892,052	12,359,023	-	13,251,075

Following table provides for the movement of impairment provision account for the years ended 31 December 2006 and 2007:

	2007	2006
At 01 January	97,819	99,693
Collected fully provided bad debts	-	(1,874)
Translation differences	(44)	-
At 31 December	97,775	97,819

During 2007 and due to their non – recoverability, total of Eur.57,446 (2006: 16,559 euros) has been written off against current profit and loss (see also Note 15).

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

11 Inventories

	2007	2006
Raw materials	185,829	194,347
Spare parts	404,042	428,367
Work in progress	5,893,539	5,254,773
Finished products	5,310	4,806
Trade goods	83,086	67,202
Other	8,725	17,197
	6,580,531	5,966,692

12 Cash and cash equivalents

	2007	2006
Bank accounts	261	850
Cash on hand	2,762	1,095
	3,023	1,945

13 Shareholders' equity

13.1 Shares issued

	Number of shares	Ordinary shares (Euros)	Share premium (Euros)	Amount (in Euros) Total (Euros)
<i>Authorized, issued and fully paid ordinary shares Eur.1 at par</i>				
At 01 January 2006	4,686,858	4,686,858	4,158,313	8,845,171
Translation differences	-	-	-	-
At 31 December 2006 / 31 December 2007	4,686,858	4,686,858	4,158,313	8,845,171

The structure of share capital at 31 December 2006 and 2007 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

13.2 Revaluation surplus

Revaluation surplus, which at 31 December 2007 and 31 December 2006 amounts Eur 2,113,574 was initially created during 2002, based upon the independent valuation of groups of Company's property, plant and equipment.

13.3 Reserves

Reserves, which at 31 December 2007 amounts Eur 7,514,753 (31 December 2006: Eur 7,310,137), 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, 12% 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 2007, amounting Eur. 204,616 (2006: Eur 216,137) relates to allocation of prior years retained earnings as well as to reconciliation of opening balances of reserves and retained earnings at 01 January 2007.

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

Shareholders' equity (continued)

13.4 Dividends and management fees

At 15 May 2007 and according to the Shareholders' Assembly Decision no. 02-926/8, part of the prior years retained earnings amounting Eur 3,109,504 (2006: Eur 3,084,862) 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 2007, 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 2,785,522 (2006: Eur 547,815).

13.5 Losses recognized in equity

During 2007 the Regional Public revenue Office in Prilep has inspected the Company's tax books and records for payment of corporate and personal income taxes related to the period from 01 January 1998 through 31 December 1999. Based on the inspection performed tax authorities has determined additional tax liabilities and penalties in the total of 699,878 Euros, of which 14,987 Euros - additional personal income tax and 684,891 Euros penalty interest. These additional charges have been recognized against Company's retained earnings.

Up to 31 December 2007 the Company has paid total of 135,416 Euros, of which 14,987 Euros - personal income tax and 120,429 Euros - penalty interest. The remaining penalty interest amounting 564,462 Euros has been accrued for payment in the next period (see also Note 16).

14 Borrowings

	2007	2006
<u>Long – term interest bearing loans from banks</u>		
Komercijalna Banka ad, Skopje (Eur.11,700,000; 6m.eurib.+3% - 3.5%)	7,956,524	8,500,002
	7,956,524	8,500,002
<u>Short – term interest bearing loans from banks</u>		
Stopanska Banka ad, Skopje (eur.3,500,000; 6m.eurib.+5.25%)	-	52,195
Komercijalna Banka ad, Skopje (mkd.55,000,000;8.5%)	-	303,577
Komercijalna Banka ad, Skopje (eur.10,000,000; 8% - 10%)	604,560	-
	604,560	355,772

Total loan additions during the year ended 31 December 2007 amounts Eur. 7,250,573 (2006: Eur. 5,181,558). Total loans repaid during the same period amounts Eur. 7,523,424 (2006: Eur. 7,829,057).

The loan repayment schedule is as follows:

	2007	2006
Failing due within 1 – 2 years	5,456,524	5,355,780
Failing due within 2 – 5 years	2,500,000	3,499,994
	7,956,524	8,855,774

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

15 Trade and other payables

	2007	2006
Trade creditors		
Local suppliers	1,052,423	869,110
Foreign suppliers	204,047	331,071
Related party's payables	-	-
	1,256,470	1,200,181
Other current liabilities		
Dividends payables (net of local taxes)	1,970,488	2,512,697
Liabilities to employees and management	202,037	253,425
Interest payable	53,168	55,040
Customers' prepayments	51,927	62,200
Other	212,609	290,368
	2,490,229	3,173,730
	3,746,699	4,373,911

16 Liabilities for taxes

	2007	2006
Tax on personal income	95,602	119,103
Tax on profit	211,596	383,348
Tax on dividends distributed to non – residents	360,432	496,517
Tax penalties	564,462	72,138
Concession fees and other levies	258,555	68,167
	1,490,647	1,139,273

17 Sales

	2007	2006
Local market	821,438	1,160,586
Foreign markets:		
- Greece and Cyprus	8,369,031	10,225,252
- Other markets	738,839	1,990,306
Sub- total – sales on foreign markets	9,107,870	12,215,558
Total sales	9,929,308	13,376,144

18 Cost of sales

	2007	2006
Stock of finished products and W.I.P. at 01 January	5,259,579	5,554,489
Add: Total production for the year ended 31 December	6,739,419	8,659,958
Less: Stock of finished products and W.I.P. at 31 December	(5,898,849)	(5,259,579)
	6,100,149	8,954,868

19 Administrative and selling expenses

	2007	2006
Staff costs	243,937	278,655
Depreciation	198,945	257,372
Marketing and promotion	163,905	133,467
Services	113,159	402,527
Materials, supplies and utilities	79,820	89,970
Taxes and other levies	71,403	149,781
Write off of bad debts	57,446	16,559
Net carrying amount of properties sold	49,291	-
Customers' discounts	9,087	224,484
Other expenses	253,433	287,139
	1,240,426	1,839,954

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

20 Staff costs

	2007	2006
Net salaries	1,429,320	1,440,647
Personal tax and mandatory contributions	905,245	983,686
Other allowances	303,638	295,786
	2,638,203	2,720,119

21 Other operating income

	2007	2006
Raw materials sold	34,075	120,914
Payables write offs and stock count surplus	62,954	183,624
Write off of dividend payables	-	162,879
Income from rents	36,184	36,191
Income from tangible assets sold	39,926	-
Other income	22,194	38,713
	195,333	542,321

22 Finance income and costs

	2007	2006
Income		
Interest income	10,558	283,101
Foreign exchange gains and translation differences, net	25,719	2,422
Gains on securities sold	-	403,781
	36,277	689,304
Expense		
Interest (expense)	(804,441)	(1,053,142)
Bank (charges)	(78,757)	(73,075)
	(883,198)	(1,126,217)
Finance costs, net	(846,921)	(436,913)

23 Income tax expense

	2007	2006
Current tax expense	269,661	374,085
Deferred tax expense / (benefit)	-	-
	269,661	374,085

Following is the reconciliation of the total income tax expense to the profit as per income statement for the years ended 31 December 2007 and 2006:

	2007	2006
Profit before tax	1,937,145	2,686,730
Tax at 12% rate of (2005: 15%)	219,352	403,009
<i>Adjusted for:</i>		
Origination and reversal of temporary differences	-	-
Non – deductible charges	50,605	65,553
Non – taxable income	(296)	(18,184)
Re – invested profits from prior periods	-	(76,293)
Tax charge	269,661	374,085

Notes to the financial statements (continued)
As of and for the years ended 31 December 2007 and 2006
(All amounts expressed in Euros, unless otherwise stated)

24 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 years ended 31 December 2007 and 2006.

	Receivables	Payables	Revenues	Purchases
<i>FHL Manufacturing & Trading Co, I. Kyriakidis Granites & Marbles SA.</i>				
- 31 December 2007	4,925,018	-	8,362,786	2,438,932
- 31 December 2006	6,425,677	-	9,786,296	2,253,607

25 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.

	2007	2006
Profit attributable to equity holders of the Company	1,667,484	2,312,645
Weighted average number of ordinary shares (in thousands)	4,687	4,687
Basic earnings per share (Euros per share)	0.36	0.49

26 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 for use of territory on which the concession has been granted in the amount of 352 thousand Denars, and
- Concession fee on sold quantities of commercial marble at 5% determined at 18 thousand Denars per square meter and at 5% for excavating of marble - tomboline determined at 9 thousand Denars per square meter according to the Methodology established by the Ministry of Economy of RM.



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