

**Interim financial statements and independent auditors' review report**

FHL Mermeren kombinat a.d., Prilep

**30 June 2004**

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## Independent auditors' review report

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

We have reviewed the accompanying balance sheet of FHL Mermeren kombinat a.d., Prilep ("The Company") at 30 June 2004 and the related statements of income, changes in equity and cash flows for the period from 01 January through 30 June 2004 and included on pages 2 to 5. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review. The financial statements of the Company as of and for the period from 01 January through 30 June 2003 were reviewed by another auditor whose report dated 17 October 2003 brought the attention on their disagreement as to the stock quantity and corresponding value at the balance sheet date, than, the carrying value of available – for – sale investments and the reasonableness of the capitalized development expenditures.

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

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



**Grant Thornton**

Skopje,  
17 July 2004

## Balance sheet

	At 30 June 2004	(000 mkd) At 31 December 2003
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	722,731	617,344
Intangible assets	72,714	86,090
Available – for – sale investments	15,061	15,061
	<b>810,506</b>	<b>718,495</b>
<b>Current assets</b>		
Inventories	382,344	309,113
Trade and other receivables	1,017,922	785,597
Cash and cash equivalents	759	58,679
	<b>1,401,025</b>	<b>1,153,389</b>
<b>Total assets</b>	<b>2,211,531</b>	<b>1,871,884</b>
<b>Shareholders' equity</b>		
Share capital	541,129	344,403
Revaluation surplus	112,667	112,667
Other reserves	417,736	357,600
Retained earnings	224,127	322,599
<b>Total shareholders' equity</b>	<b>1,295,659</b>	<b>1,137,269</b>
<b>Liabilities</b>		
<b>Non – current liabilities</b>		
Borrowings	416,937	435,181
Deferred tax liabilities	19,883	19,883
	<b>436,820</b>	<b>455,064</b>
<b>Current Liabilities</b>		
Trade and other payables	319,563	130,177
Borrowings and current maturities	141,745	114,193
Liabilities for taxes	17,744	35,181
	<b>479,052</b>	<b>279,551</b>
<b>Total liabilities</b>	<b>915,872</b>	<b>734,615</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,211,531</b>	<b>1,871,884</b>

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

Mr. Srgjan Krstić  
Executive, General Director

See accompanying notes to the financial statements

## Statement of income

	Period ended 30 June 2004	(000 mkd) Period ended 30 June 2003
Sales	319,431	301,770
Cost of sales	(140,072)	(170,251)
<b>Gross profit</b>	<b>179,359</b>	<b>131,519</b>
Administrative and selling expenses	(59,969)	(19,190)
Other operating income	40,333	2,585
<b>Profit from operations</b>	<b>159,723</b>	<b>114,914</b>
Financial result, net	(14,494)	(16,007)
<b>Profit before income tax</b>	<b>145,229</b>	<b>98,907</b>
Income tax (expense)	(11,143)	(146)
<b>Net profit</b>	<b>134,086</b>	<b>98,761</b>
<b>Attributable to:</b>		
Equity holders of the Company	134,086	98,761
	<b>134,086</b>	<b>98,761</b>
<b>Earnings per share for profit attributable to the equity holders for the period</b>		
- Basic (in Denars per share)	30	23

## Statement of changes in equity

	Share Capital	Reserves	Revaluation surplus	Retained earnings	(000 mkd) Total
Balance, 01 January 2003	344,403	153,247	123,790	287,916	909,356
Released revaluation surplus	-	-	(11,123)	11,123	-
Net profit for the year	-	-	-	227,913	227,913
Allocation of retained earnings	-	204,353	-	(204,353)	-
<b>Balance, 31 December 2003</b>	<b>344,403</b>	<b>357,600</b>	<b>112,667</b>	<b>322,599</b>	<b>1,137,269</b>
Additional paid – in capital	196,726	-	-	-	196,726
Net profit for the period	-	-	-	134,086	134,086
Allocation of retained earnings	-	60,136	-	(60,136)	-
Dividends declared	-	-	-	(172,422)	(172,422)
<b>Balance, 30 June 2004</b>	<b>541,129</b>	<b>417,736</b>	<b>112,667</b>	<b>224,127</b>	<b>1,295,659</b>

## Statement of cash flows

	(000 mkd)	
	Period ended 30 June 2004	Period ended 31 December 2003
<b>Operating</b>		
Net profit before tax	145,229	98,907
<u>Adjusted for:</u>		
Depreciation and amortization	42,098	37,934
Net finance cost	15,574	18,940
(Gains) on fixed assets disposed	-	(1,728)
Revaluation of available – for – sale securities	-	(14)
Impairment charges on trade debts	11,498	-
(Release) of provision for impairment on trade debts	(35,730)	-
Operating profit before working capital changes	178,669	154,039
<u>Changes in working capital:</u>		
(Increase) in inventory	(73,231)	(48,781)
(Increase) in trade and other receivables	(208,093)	(177,629)
Increase in trade and other payables	17,006	6,339
Cash (used in) operations	(85,649)	(66,032)
Interest paid	(17,531)	(19,664)
Income tax paid	(11,143)	(37)
	(114,323)	(85,733)
<b>Investing</b>		
Purchase of equipment and intangibles	(134,109)	(27,386)
Proceeds from sale of equipment	-	5,490
Interest received	871	-
Dividends received	1,064	724
	(132,174)	(21,172)
<b>Financing</b>		
Proceeds from additional paid – in capital	196,726	-
Dividends paid	(17,457)	-
Proceeds from borrowings	39,864	107,020
(Repayments) of borrowings	(30,556)	-
	188,577	107,020
Net (decrease) / increase in cash and cash equivalents	(57,920)	115
Cash and cash equivalents at beginning of the period	58,679	598
Cash and cash equivalents at end of the period	759	713

See accompanying notes to the financial statements

# Notes to the financial statements

30 June 2004

## 1 General

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

At 30 June 2004, the majority of total issued shares -88.4% (30 June and 31 December 2003: 98.21%) is owned by FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles S.A Greece, which is the ultimate parent.

The Company's main business activities include mining, processing and distribution of marble and decorative stones. The Company operates on local and foreign markets and at 30 June 2004 employs 463 persons (2003: 550).

## 2 Basis of preparation

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

The interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", following the same accounting policies and methods of computation as compared with the annual financial statements as of and for the year ended 31 December 2003.



## Notes to the financial statements (continued)

As of and for the period ended 30 June 2004 and 30 June 2003

(All amounts in Denar thousands, unless otherwise stated)

## 3 Explanatory notes

## a. Reconciliation of statutory to IFRS accounts

The Company maintains its accounting records and prepares its statutory accounts in accordance with the legal regulations prevailing in the Republic of Macedonia. Where these regulations differ from IFRS, the statutory accounts have been adjusted and reclassified in order to comply with IFRS.

A reconciliation of reported Company's statutory financial statements as of and for the period ended 30 June 2004 to IFRS financial statements is summarized below (in Denar thousands):

	Assets	Liabilities	Capital & Reserves	Retained earnings	Current period profit
<b>Statutory accounts</b>	<b>2,077,571</b>	<b>895,989</b>	<b>963,538</b>	<b>118,803</b>	<b>99,241</b>
Adjusted For:					
Revaluation surplus	158,190	19,883	112,667	25,640	-
Allowance to net realizable value of stock	(23,183)	-	-	(23,183)	-
Statutory revaluation of long – term assets	(1,047)	-	(1,047)	-	-
Reallocation of statutory reval.reserves	-	-	(3,626)	3,626	-
Release of provision for impairment	-	-	-	(35,730)	35,730
Reverse of prior year reconciliation	-	-	-	885	(885)
Total adjustments:	133,960	19,883	107,994	(28,762)	34,845
<b>IFRS accounts</b>	<b>2,211,531</b>	<b>915,872</b>	<b>1,071,532</b>	<b>90,041</b>	<b>134,086</b>

## b. Issuance of equity securities

During 2004, the Company has increased its share capital by issuance of 468,700 ordinary shares, which were sold to Piraeus Bank S.A, Greece.

Following table summarizes the movement of the Company's share capital:

	Number of shares	Ordinary shares	Share premium	Total
		(000 mkd)	(000 mkd)	(000 mkd)
<i>Authorized, issued and fully paid ordinary shares Eur.1 at par</i>				
At 31 December 2003	4,218,158	258,754	85,649	344,403
Proceeds from shares issued (paid at March 11, 2004)	468,700	28,618	168,108	196,726
<b>At 30 June 2004</b>	<b>4,686,858</b>	<b>287,372</b>	<b>253,757</b>	<b>541,129</b>

The structure of share capital at 30 June 2004 and 2003, is as follows (amounts in Eur):

	30 June 2004			30 June 2003		
	Number	Amount	%	Number	Amount	%
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.	4,143,357	4,143,357	88.40	4,143,357	4,143,357	98.21
Piraeus Bank SA.	468,700	468,700	10.00	-	-	-
Other – minority	74,801	74,801	1.60	74,801	74,801	1.79
	<b>4,686,858</b>	<b>4,686,858</b>	<b>100.00</b>	<b>4,218,158</b>	<b>4,218,158</b>	<b>100.00</b>

## Notes to the financial statements (continued)

As of and for the period ended 30 June 2004 and 30 June 2003

(All amounts in Denar thousands, unless otherwise stated)

## c. Sales

Following table analyses the sales by geographical segments:

	2004	2003
<u>Local market</u>	91,834	271,900
<u>Foreign markets:</u>		
- Greece	165,196	11,810
- Other	62,401	18,060
	319,431	301,770

## d. Release of provision for impairment on trade and other receivables

At 30 June 2004, included in other operating income is the amount of Denar 35,730 thousands, which relates to release of the provision for impairment on trade and other receivables. Following is the movement of the provision account:

	2004	2003
<b>Balance, 01 January</b>	26,256	18,270
Additions	11,498	11,789
Write offs	-	(1,122)
Release (charged to profit for the period)	(35,730)	(2,681)
<b>Balance, 30 June 2004 / 31 December 2003</b>	2,024	26,256

## e. Earning per share

*Basic*

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

	2004	2003
<u>Profit attributable to equity holders of the Company</u>	134,086	98,761
<u>Weighted average number of ordinary shares in issue</u>		
Issued ordinary shares at 01 January	4,218,158	4,218,158
Effect of shares issued in March 2004	290,024	-
<b>Weighted average number of ordinary shares at 30 June 2004</b>	4,508,182	4,218,158

**Notes to the financial statements (continued)****As of and for the period ended 30 June 2004 and 30 June 2003****(All amounts in Denar thousands, unless otherwise stated)****f. 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 periods ended 30 June 2004 and 2003.

	<u>Receivables</u>	<u>Payables</u>	<u>Revenues</u>	<u>Purchases</u>
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 30 June 2004	546,470	21,636	167,098	119,208
- 30 June 2003	36,599	-	11,467	47,601

**g. Contingencies and commitments****Contingencies**

Litigations. At 30 June 2004, legal proceedings raised against the Company amount in total Denar 8,372 thousands. No provision has been made as of the balance sheet date, as professional advice indicates that it is unlikely that any significant loss will arise. In addition, various legal actions and claims may be asserted in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Company believes that no material liabilities are likely to result.

Assets pledged and guarantees. At 30 June 2004 and in order to secure the funds borrowed under loan agreements with the local commercial banks, the Company has issued seven (7) blank cheques with authorization given to the respective banks to fill and cash without objection.

It is not anticipated that any material liabilities will arise from these contingent liabilities. No additional payments are anticipated at the date of these financial statements.

**Commitments**

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