

Financial statements and independent auditors' report
FHL Mermeren kombinat a.d., Prilep
31 December 2004

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Independent auditors' report

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

We have audited the accompanying balance sheet of FHL Mermeren kombinat a.d., Prilep ("The Company") at 31 December 2004 and the related statements of income, changes in equity and cash flows for the year than ended and included on pages 2 to 5. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of and for the year ended 31 December 2003 were audited by another auditor whose report dated 10 May 2004 expressed a qualified opinion due to their disagreement as to the carrying value of available – for – sale investments, than, reasonableness of the capitalized development expenditures, as well as, to the provision for obsolescence on inventories.

We conducted our audit 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 audit provides 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 at 31 December 2004, and the results of its operations, changes in equity and its cash flows for the year than ended, in accordance with International Financial Reporting Standards, as issued by International Accounting Standards Board.



Grant Thornton

Skopje,
17 March 2005

Balance sheet

	Note	At 31 December 2004	(000 mkd) At 31 December 2003
Assets			
Non-current assets			
Property, plant and equipment	4	751,857	617,344
Intangible assets	5	58,936	86,090
Available – for – sale investments	6	57,875	15,061
		868,668	718,495
Current assets			
Inventories	7	501,542	309,113
Trade and other receivables	8	781,305	785,597
Cash and cash equivalents	9	1,762	58,679
		1,284,609	1,153,389
Total assets		2,153,277	1,871,884
Shareholders' equity			
	10		
Share capital		541,129	344,403
Revaluation surplus		101,544	112,667
Other reserves		417,736	357,600
Retained earnings		336,898	322,599
Total shareholders' equity		1,397,307	1,137,269
Liabilities			
Non – current liabilities			
Borrowings	11	275,895	435,181
Deferred tax liabilities	12	17,920	19,883
		293,815	455,064
Current Liabilities			
Trade and other payables	13	293,764	130,177
Borrowings and current maturities	11	153,355	114,193
Liabilities for taxes		15,036	35,181
		462,155	279,551
Total liabilities		755,970	734,615
Total liabilities and shareholders' equity		2,153,277	1,871,884

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


Mr. Srgjan Krstic,
General Executive Director,

See accompanying notes to the financial statements

Statement of income

	Note	Year ended 31 December 2004	(000 mkd) Year ended 31 December 2003
Sales	14	685,951	669,430
Cost of sales		(401,528)	(364,827)
Gross profit		284,423	304,603
Administrative and selling expenses		(52,513)	(45,640)
Other operating income	15	62,104	6,730
Profit from operations		294,014	265,693
Financial result, net	17	(34,985)	(37,627)
Profit before income tax		259,029	228,066
Income tax (expense)	18	(23,295)	(153)
Net profit		235,734	227,913
Attributable to:			
Holders of ordinary shares	20	235,734	227,913
Earnings per share (expressed in denars per share)	20	51.22	54.03

Statement of changes in equity

	Share Capital	Other Reserves	Revaluation surplus	Retained earnings	(000 mkd) Total
At 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)	-
At 31 December 2003 / 01 January 2004	344,403	357,600	112,667	322,599	1,137,269
Additional paid – in capital	196,726	-	-	-	196,726
Net profit for the year	-	-	-	235,734	235,734
Released revaluation surplus	-	-	(11,123)	11,123	-
Allocation of retained earnings	-	60,136	-	(60,136)	-
Dividends declared	-	-	-	(172,422)	(172,422)
At 31 December 2004	541,129	417,736	101,544	336,898	1,397,307

Statement of cash flows

	Note	Year ended 30 December 2004	(000 mkd) Year ended 31 December 2003
Operating			
Net profit before tax		259,029	228,066
<u>Adjusted for:</u>			
Depreciation and amortization		102,323	71,729
Net finance cost		39,736	41,348
Gains on fixed assets disposed		-	(1,569)
Impairment charges on trade debts		(17,997)	-
Dividend income		(1,065)	-
Operating profit before working capital changes		382,026	339,574
<u>Changes in working capital:</u>			
(Increase) in inventory		(192,428)	(84,613)
Decrease / (Increase) in trade and other receivables		5,774	(446,345)
Increase in trade and other payables		99,803	2,851
Cash from / (used in) operations		295,175	(188,533)
Interest paid		(37,221)	(42,283)
Income tax paid		(25,258)	(488)
		232,696	(231,304)
Investing			
Purchase of equipment and intangibles		(209,682)	(79,462)
Proceeds from sale of equipment		-	5,490
Repayment of borrowings given		30,956	-
Purchase of securities		(17,546)	-
Interest received		-	211
Dividends received		1,065	724
		(195,207)	(73,037)
Financing			
Proceeds from additional paid – in capital		196,726	-
Dividends paid		(171,008)	-
Proceeds from borrowings		153,590	722,325
(Repayments) of borrowings		(273,714)	(359,903)
		(94,406)	362,422
Net (decrease) / increase in cash and cash equivalents		(56,917)	58,081
Cash and cash equivalents at beginning	9	58,679	598
Cash and cash equivalents at end	9	1,762	58,679

See accompanying notes to the financial statements

Notes to the financial statements

31 December 2004

1 General

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

At 31 December 2004, the majority of total issued shares -88.4% (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 31 December 2004 employs 464 persons (2003: 550). *-average*

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

2 Accounting policies

Basis of preparation

These financial statements have been prepared in compliance with the International Financial Reporting Standards, 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.

These financial statements are prepared as of and for the years ended 31 December 2004 and 2003. Current and comparative data are expressed in thousands of Macedonian Denars (000 mkd) unless otherwise stated. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the financial statements (continued)

Accounting policies (continued)

Foreign currency translation

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 2004	31 December 2003
1 USD	45.0676 Denars	49.0502 Denars
1 EUR	61.3000 Denars	61.2931 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. Each year, the net difference decreased for the related deferred tax, between depreciation charged on revalued amount and the depreciation charged on cost, is transferred from revaluation reserves to the retained earnings for the year. 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.

Notes to the financial statements (continued)

Accounting policies (continued)

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 asset 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.

Notes to the financial statements (continued)

Accounting policies (continued)

Trade and other receivables

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

Cash and cash equivalents

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

Share capital

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

Borrowings

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

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

Employee benefits*Pension obligations*

The Company has pension scheme as prescribed by the local social security legislation under which it contributes to its employees' post retirement plans. Contributions, based on salaries, are made to the national Pension Fund responsible for the payment of pensions. There is no additional liability regarding these plans.

Post – retirement obligations

The Company provides its retirees an amount equal to three month's average salary according to the related local provisions. No provision has been made at the balance sheet date in respect of this post – retirement obligations, since that amount would not have a material effect on the financial statements.

Notes to the financial statements (continued)

Accounting policies (continued)

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.

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)

As of and for the years ended 31 December 2004 and 2003

(All amounts in Denar thousands, unless otherwise stated)

4 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construct.in progress	Total
At 31 December 2003				
Cost or Revaluation	177,928	478,689	39,070	695,687
Accumulated Depreciation	(14,152)	(64,191)	-	(78,343)
Net Carrying Amount	163,776	414,498	39,070	617,344
Year ended 31 December 2004				
Opening Net Carrying Amount	163,776	414,498	39,070	617,344
Additions, net of transfers from C.I.P.	28,040	212,934	(31,625)	209,349
Disposals	-	(34)	-	(34)
Depreciation charge for the year	(7,725)	(67,077)	-	(74,802)
Closing Carrying Amount	184,091	560,321	7,445	751,857
At 31 December 2004				
Cost or Revaluation	205,968	673,003	7,445	886,416
Accumulated Depreciation	(21,877)	(112,682)	-	(134,559)
Net Carrying Amount	184,091	560,321	7,445	751,857

During 2002, groups of Company's property, plant and equipment have been revalued based upon an independent valuation performed by outside professional appraisers. The effect of the revaluation was that the items of property, plant and equipment were increased for the total amount of Denar 158,190 thousands, of which Denar 147,817 thousands was accounted for within the revaluation surplus (see Note 10 – Revaluation surplus) and the remaining, in the amount of Denar 10,373 thousands – within the retained earnings.

Each year, the difference, net of related deferred tax, between depreciation charged on revalued amount and the depreciation charged on cost, is transferred from revaluation surplus to the retained earnings for the year. During 2004, the apportioned part of net depreciation in the amount of Denar 11,123 thousands (gross depreciation amounting Denar 13,086 thousands less related deferred tax in the amount of Denar 1,963 thousands) was transferred from revaluation surplus to the retained earnings

5 Intangible assets

	Development costs	Patents & licenses	Total
At 31 December 2003			
Cost or Revaluation	136,058	148	136,206
Accumulated Depreciation	(50,036)	(80)	(50,116)
Net Carrying Amount	86,022	68	86,090
Year ended 31 December 2004			
Opening Net Carrying Amount	86,022	68	86,090
Additions, net of transfers	367	-	367
Amortization charge for the year	(27,453)	(68)	(27,521)
Closing Net Carrying Amount	58,936	-	58,936
At 31 December 2004			
Cost or Revaluation	136,425	148	136,573
Accumulated Depreciation	(77,489)	(148)	(77,637)
Net Carrying Amount	58,936	-	58,936

Notes to the financial statements (continued)
As of and for the years ended 31 December 2004 and 2003
(All amounts in Denar thousands, unless otherwise stated)

6 Available – for – sale investments

	2004	2003
Equity securities		
- Listed	15,061	15,061
	15,061	15,061
Interest in share capital		
- Foreign companies	42,814	-
	42,814	-
	57,875	15,061

Following table summarizes the movement of investments in securities:

	2004	2003
Balance, 01 January	15,061	15,061
Additions	42,814	-
Disposals	-	-
Balance, 31 December	57,875	15,061

At 31 December 2004 and 2003, total investments in equity securities consist of 2,839 ordinary shares with one local commercial bank with nominal value of 5,310 Denars at par.

At 22 March 2004, based on Pre-agreement signed with Sete Supply & Trade SA, Greece (the seller), the Company purchased 51% of the interest in the equity of Kosmos Building Materials Shanghai Co, China for the amount of US Dollars 950,000. Under the terms of the pre-agreement, the Company deposited US Dollars 350,000 (equivalent to Denar 17,546 thousands) and is liable to pay the rest of the total charge in three equal instalments no later than 31 December 2005 (see also Note 13).

Total dividends received during 2004 amount Denar 1,065 thousands (see also Note 17 - Financial result, net).

7 Inventories

	2004	2003
Raw materials	27,575	16,681
Spare parts	32,385	29,655
Non-finished products	430,080	255,018
Finished products	1,365	473
Trade goods	6,315	5,613
Other	3,822	4,602
	501,542	312,042
Less: provision	-	(2,929)
	501,542	309,113

Notes to the financial statements (continued)
 As of and for the years ended 31 December 2004 and 2003
 (All amounts in Denar thousands, unless otherwise stated)

8 Trade and other receivables

	2004	2003
Trade receivables		
Local debtors	118,382	295,307
Foreign debtors	309,055	69,405
Related party's receivables	344,383	406,096
	771,820	770,808
Prepayments		
Prepaid VAT	1,023	5,251
Advances to suppliers	1,131	33,882
	2,154	39,133
Other current receivables		
Advances to and receivables from employees	239	-
Other sundry receivables	13,207	1,912
	13,446	1,912
	787,420	811,853
Less: provision for impairment	(6,115)	(26,256)
Receivables and prepayments, net	781,305	785,597

The following table summarizes the movement of the provision for impairment on trade and other receivables:

	2004	2003
Balance, 01 January	26,256	18,270
Additions	17,733	11,789
Write offs	(2,144)	(1,122)
Release (see Note 15)	(35,730)	(2,681)
Balance, 31 December	6,115	26,256

At 31 December 2004, out of the total trade debtors' balance, Denar 182,762 thousands relates to receivables older than 1 year, of which – from local debtors – Denar 10,424 thousands and from foreign debtors (including related party's receivables) – Denar 172,338 thousands. Total provision for non-recoverability of these debts amounts Denar 6,115 thousands. The Company's management estimates the net debtors' balance amounting in total Denar 765,705 thousands fully recoverable.

9 Cash and cash equivalents

	2004	2003
Bank accounts	1,115	58,554
Cash on hand	647	125
	1,762	58,679

Notes to the financial statements (continued)
As of and for the years ended 31 December 2004 and 2003
(All amounts in Denar thousands, unless otherwise stated)

10 Shareholders' equity

Shares issued

	Number of shares	Ordinary shares (000 mkd)	Share premium (000 mkd)	Total (000 mkd)
<i>Authorized, issued and fully paid ordinary shares Eur.1 at par</i>				
At 31 December 2003 and 2002	4,218,158	258,754	85,649	344,403
Proceeds from shares issued	468,700	28,618	168,108	196,726
At 31 December 2004	4,686,858	287,372	253,757	541,129

The structure of share capital at 31 December 2004 and 2003, is as follows (amounts in Eur):

	31 December 2004			31 December 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
	4,686,858	4,686,858	100.00	4,218,158	4,218,158	100.00

Revaluation surplus

Revaluation surplus, which at 31 December 2004 amounts Denar 101,544 thousands (2003: Denar 112,667 thousands) was initially created during 2002 (Denar 147,817 thousands), based upon the independent revaluation of groups of Company's property, plant and equipment.

Subsequent to the initial recognition, during the years and up to 31 December 2004, apportioned part of the revaluation surplus, net of deferred tax in the total amount of Denar 46,273 thousands, related to the difference between depreciation charged on revalued amount and the depreciation charged on cost, is released from revaluation surplus to the retained earnings. During 2004, total of Denar 11,123 thousands (2003: same) was transferred into retained earnings (see also Notes 4 and 12).

Other reserves

Other reserves, which at 31 December 2004 amounts Denar 417,736 thousands (2003: Denar 357,600 thousands), are created during the years by allocation of parts of the net income after tax. According to the prevailing local legal regulations, the Company is required to set aside each year, 15% from its annual net income after tax, until the level of such reserves reach 20% of the registered capital. Until the required minimum level is reached, reserves can be used only for covering of losses from operations, after which, the amounts in excess of the minimum required level, upon Company's Assembly decision, can be distributed for dividends to the shareholders and/or for purchase of its own shares.

During 2004, based on the Decision of the Shareholders' Assembly, part of the retained earnings amounting Denar 60,136 thousands were allocated into other reserves.

Dividends

According to the Shareholders' Assembly Decision dated May 27 2004 (as mentioned above), part of the retained earnings amounting Denar 172,422 thousands were allocated for dividends to shareholders. During 2004, the Company has paid to its shareholders dividends in the total amount of Denar 171,008 thousands.

Notes to the financial statements (continued)
As of and for the years ended 31 December 2004 and 2003
(All amounts in Denar thousands, unless otherwise stated)

11 Borrowings

	2004	2003
Interest – bearing loans		
1. Long – term loans		
<i>Secured loans</i>		
Stopanska Banka AD, Skopje		
Eur. 3,000,000; At Euribor+5.25%;	-	165,491
EBRD		
Eur. 5,000,000; At Euribor+3.5%; Maturity: 17 March 2010; Repayable in 10 semi-annual instalments; Balance at 31 December 2004 Eur. 5,000,000	306,550	306,466
	306,550	471,957
Less: current maturity	(30,655)	(36,776)
Long – term portion of long – term loan	275,895	435,181
2. Short – term loans		
<i>Secured loans repayable in Denars from local banks</i>		
EUR 2,000,000; 6 months Euribor + 5.25%	122,700	77,417
Add: current maturity of long – term loans	30,655	36,776
Short – term loans and current maturities	153,355	114,193
Total borrowings	429,250	549,374

The loan repayment schedule is as follows:

	Eur	000 mkd
Failing due within 1 – 2 years	1,000,000	61,310
Failing due within 2 – 5 years	3,000,000	183,930
Failing due after years	500,000	30,655
	4,500,000	275,895

12 Deferred tax liabilities

At 31 December 2004, total balance of deferred tax liabilities, amounting Denar 17,920 thousands (2003: Denar 19,883 thousands) entirely relates to revaluation surplus on Company's property, plant and equipment.

Movement in the deferred tax account is as follows:

	2004	2003
Balance, 01 January	19,883	20,181
<i>Charged to income statement</i>		
- Adjustment of work in progress to net realizable value	-	1,665
- Release of revaluation surplus	(1,963)	(1,963)
Balance, 31 December	17,920	19,883

Notes to the financial statements (continued)

As of and for the years ended 31 December 2004 and 2003

(All amounts in Denar thousands, unless otherwise stated)

13 Trade and other payables

	2004	2003
Trade creditors		
Local suppliers	117,009	58,695
Foreign suppliers	21,003	22,665
Related party's payables	83,197	-
	221,209	81,360
Other current liabilities		
Payables for acquisition of securities	25,268	-
Liabilities to employees	13,801	15,447
Dividends payables	12,468	11,054
Interest payable	4,973	-
Customers' prepayments	3,863	3,537
Other	12,182	18,779
	72,555	48,817
	293,764	130,177

14 Sales

	2004	2003
Local market	186,080	402,053
Foreign markets	499,871	267,377
	685,951	669,430

Following is the analysis of sales by foreign markets:

	2004	2003
Greece	191,999	223,183
Cyprus	274,611	-
Other markets	33,261	44,194
	499,871	267,377

15 Other operating income

	2004	2003
Release of provision for impairment on trade debts	35,730	-
Income from reversal of prior year's charges	23,183	-
Collected bad debts	-	2,681
Other income	3,191	4,049
	62,104	6,730

16 Staff costs

	2004	2003
Net salaries	95,738	109,343
Personal tax and mandatory contributions	65,991	78,069
Other allowances	20,532	16,559
	182,261	203,971

Notes to the financial statements (continued)

As of and for the years ended 31 December 2004 and 2003

(All amounts in Denar thousands, unless otherwise stated)

17 Financial result, net

	2004	2003
Interest (expense)	(36,700)	(32,190)
Interest income	-	211
Bank (charges)	(3,036)	(10,093)
Dividend income	1,065	724
Foreign exchange gains, net	3,686	3,721
Financial result, net	(34,985)	(37,627)

18 Income tax expense

	2004	2003
Current tax expense	25,258	451
Deferred tax (benefit)	(1,963)	(298)
	23,295	153

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

	2004	2003
Profit before tax	259,029	228,066
Tax at 15% rate of (2003: 15%)	38,854	34,210
<i>Adjusted for:</i>		
Origination and reversal of temporary differences	(8,704)	442
Non – deductible charges	5,054	1,575
Non – taxable income	(169)	(109)
Re – invested profits from prior periods	(11,740)	(11,329)
Tax credit due to foreign investment	-	(24,636)
Tax charge	23,295	153

19 Related party transactions**Balances and transactions with related parties**

The Company has related party transactions with its parent during the normal course of business activities. All these transactions were carried out on commercial terms and conditions and at market prices.

The table below provides for the volume and balances from the related party transactions as of and for the years ended 31 December 2004 and 2003.

	Receivables	Payables	Revenues	Purchases
FHL Manufacturing & Trading Co, I.Kyriakidis Granites & Marbles SA.				
- 31 December 2004	344,383	83,197	492,493	230,100
- 31 December 2003	406,096	-	355,882	125,885

Notes to the financial statements (continued)
As of and for the years ended 31 December 2004 and 2003
(All amounts in Denar thousands, unless otherwise stated)

20 Earnings per share

Basic

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

	2004	2003
Profit attributable to equity holders of the Company	235,734	227,913
Weighted average number of ordinary shares (in thousands)	4,602	4,218
Basic earnings per share (denars per share)	51.22	54.03

21 Contingent liabilities and commitments

Contingencies

Litigations. At 31 December 2004, legal proceedings raised against the Company amount in total Denar 8,304 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.

Commitments

Financial covenants. According to Article 5.11 – Financial ratios from the Loan Agreement No. 32754 dated December 16, 2003, between European Bank for Reconstruction and Development (“EBRD”) and FHL Mermeren kombinat a.d., Prilep, the Company is required to maintain during the whole loan repayment period, adequate financial ratios, as follows:

- a. Debt service coverage ratio – not less than 2.0:1,
- b. Long – term debt to equity ratio – not exceeding 0.45:1,
- c. Total debt to equity ratio - not exceeding 0.71:1, and
- d. Current liquidity ratio - not less than 2.01:1.

Following table summarizes the actual ratios calculated based on data provided from the financial statements of the Company as of and for the years ended 31 December 2004:

Ratio	Actual	Required
a. Debt service coverage ratio	2.81	Not less than 2.00
b. Long – term debt to equity ratio	0.20	Not exceeding 0.45
c. Total debt to equity ratio	0.31	Not exceeding 0.71
d. Current liquidity ratio	2.30	Not less than 2.01

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

Notes to the financial statements (continued)
As of and for the years ended 31 December 2004 and 2003
(All amounts in Denar thousands, unless otherwise stated)

22 Concession agreements

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

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

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