

Report of the auditors to the members of Balkan Cement Enterprises Limited

Report on the financial statements

1 We have audited the financial statements of Balkan Cement Enterprises Limited on pages 5 to 14, which comprise the balance sheet as at 31 December 2004 and the statement of operations, statement of changes in equity and cash flow statement for the year then ended and the related notes. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

2 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 about whether the financial statements are free of material misstatement. 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 the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the financial statements give a true and fair view of the financial position of Balkan Cement Enterprises Limited as of 31 December 2004 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Law, Cap. 113.

(3)

Board Members: Phidias K Pilides (Chief Executive Officer), Dinos N Papadopoulos, Tassos I Televantides, Panikos N Tsiailis, Christakis Santis, Stephos D Stephanides, Costas L Hadjiconstantinou, George Foradaris, Costas M Nicolaidis, Angelos M Loizou, Vasilis Hadjivassiliou, Savvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panicos Kaouris, Nicos A Neophytou, George M Loizou, Androulla S Pittas, Andreas T Constantinides, Timothy D Osborne, Pantelis G Evangelou, Liakos M Theodorou, Stelios Constantinou, Tassos Procopiou, Theo Parperis, Constantinos Constantinou, Petros C Petrakis, Philippos C Soseilos, Evgenios C Evgeniou, Christos Tsolakis, Nicos A Theodoulou, Nikos T Nikolaidis, Cleo A Papadopoulou, Marios S Andreou, Nicos P Chimarides, Aram Tavitian, Constantinos Taliotis
Directors of Operations: Adrian Ioannou, Stavros A Kattamis, Androulla Aristidou, Achilles Chrysanthou, George Skapoullaros
Non-Executive Chairman: Michael H Zampelas
Consultant: Loizos Shakallis

4 Without qualifying our opinion, we draw attention to the fact that these financial statements have been prepared on a going concern basis which presumes that amounts due to related parties of EUR23,460,174 (Note 12) will not be called for repayment by the parties concerned 12 months from the date of this report.

Report on other legal requirements

5 Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on page 2 is consistent with the financial statements.

PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 20 January 2005

Balkan Cement Enterprises Limited

Statement of operations for the year ended 31 December 2004

	Note	2004 EUR	2003 EUR
Interest income		294	651
Administrative expenses		(13,056)	(57,709)
Loss from operations	4	<u>(12,762)</u>	<u>(57,058)</u>
Provision for non-recovery of option costs	8	(14,508,322)	(2,580,000)
Finance (costs)/income – net	5	(206)	238
Net loss for the year		<u><u>(14,521,290)</u></u>	<u><u>(2,636,820)</u></u>

The notes on pages 9 to 14 form part of these financial statements.

Balkan Cement Enterprises Limited

Balance sheet at 31 December 2004

	Note	2004 EUR	2004 EUR	2003 EUR	2003 EUR
Assets					
Current assets					
Loan receivable	7		-		337,628
Option costs	8	26,343,748		26,343,748	
Less: Provision for non-recovery of option costs	8	(17,088,322)	9,255,426	(2,580,000)	23,763,748
Other debtors and prepayments			2,606		3,001
Cash at bank			37,238		10,400
Total assets			<u>9,295,270</u>		<u>24,114,777</u>
Equity and liabilities					
Capital and reserves					
Share capital	9		294,000		294,000
Share premium	9		2,716,000		2,716,000
Accumulated losses			(17,180,269)		(2,658,979)
			<u>(14,170,269)</u>		<u>351,021</u>
Current liabilities					
Creditors and accrued expenses	10		23,465,539		23,763,756
Total equity and liabilities			<u>9,295,270</u>		<u>24,114,777</u>

On 20 January 2005 the Board of Directors of Balkan Cement Enterprises Limited authorised these financial statements for issue.

Stelios Triantafyllides, Director

Arta Antoniou, Director

The notes on pages 9 to 14 form part of these financial statements.

Balkan Cement Enterprises Limited

Cash flow statement for the year ended 31 December 2004

	Note	2004 EUR	2003 EUR
Cash flows from operating activities			
Net loss for the year		(14,521,290)	(2,636,820)
Adjustment for:			
Provision for non-recovery of option premium	8	14,508,322	2,580,000
Operating loss before working capital changes		<u>(12,968)</u>	<u>(56,820)</u>
Changes in working capital:			
Other debtors and prepayments		395	286
Creditors and accrued expenses		(298,217)	6,857,913
Net cash (used in)/from operating activities		<u>(310,790)</u>	<u>6,801,379</u>
Cash flows from investing activities			
Loan to subsidiary	7	337,628	-
Option prepayments	8	-	(6,860,000)
Net cash from/(used in) investing activities		<u>337,628</u>	<u>(6,860,000)</u>
Net increase/(decrease) in cash and cash equivalents		<u>26,838</u>	<u>(58,621)</u>
Cash and cash equivalents at beginning of year		10,400	69,021
Cash and cash equivalents at end of year	11	<u><u>37,238</u></u>	<u><u>10,400</u></u>

The notes on pages 9 to 14 form part of these financial statements.