

**EUROROM CONSTRUCTII '97 S.R.L.**

**FINANCIAL STATEMENTS**

**Prepared in accordance with International Financial Reporting Standards**

**31 December 2005**

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**Eurorom Constructii '97 S.R.L.**  
**Balance Sheets**  
**as of 31 December 2005 and 2004**  
*(Currency: RON, unless otherwise indicated)*

	<b>Notes</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<b>3</b>	223,062	56,349
Intangible assets	<b>3</b>	911	1,266
Investment in associates	<b>4</b>	2,057,840	1,907,794
Available for sale investments	<b>5</b>	182	169
Other financial assets	<b>6</b>	-	2,350,000
		<b>2,281,995</b>	<b>4,315,578</b>
<b>Current assets</b>			
Inventories		2,735,278	1,461,316
Trade and other receivables	<b>7</b>	1,331,320	454,896
Cash and cash equivalents	<b>8</b>	4,066,597	1,916,212
		<b>6,348,592</b>	<b>6,231,790</b>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES:</b>			
<b>Equity</b>			
Issued capital	<b>9</b>	6,563,949	6,563,949
Other reserves		747,914	255,939
Retained earnings		(1,014,415)	(634,965)
		<b>6,297,448</b>	<b>6,184,923</b>
<b>Non-Current liabilities</b>			
Financial lease	<b>10</b>	25,183	19,998
		<b>25,183</b>	<b>19,998</b>
<b>Current liabilities</b>			
Financial lease	<b>10</b>	11,062	5,738
Trade and other payables	<b>11</b>	14,899	18,136
Income tax payable		-	2,995
		<b>25,961</b>	<b>26,869</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			
		<b>6,348,592</b>	<b>6,231,790</b>

The accompanying notes form an integral part of these financial statements.

**Eurorom Constructii '97 S.R.L.**  
**Income Statement**  
**for the year ended 31 December 2004**  
*(Currency: US Dollars ("EURO"), unless otherwise indicated)*

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	<u>Notes</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Revenue	<b>13</b>	-	2,428,562
Cost of sales		-	1,033,265
<b>Gross profit</b>		-	<b>1,395,297</b>
Other income		2,649	180,619
General & distribution expenses		(531,929)	(82,441)
Other expenses		(3,462)	(4,014)
Finance costs		153,292	215,895
<b>Income/(Loss) before tax</b>		<b>(379,449)</b>	<b>1,705,356</b>
Income tax expenses		-	(41,723)
<b>Income/(Loss) for the year</b>		<b>(379,449)</b>	<b>1,663,633</b>

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**Eurorom Constructii '97 S.R.L.**  
**Statement of Changes in Shareholders' Equity**  
**for the year ended 31 December 2005**  
*(Currency: Euro ("EURO"), unless otherwise indicated)*

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	<u>Share Capital</u>	<u>Other Reserves</u>	<u>Translation reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance at 31 December 2004</b>	<b>6,563,949</b>	<b>61,243</b>	<b>194,696</b>	<b>(634,965)</b>	<b>6,184,923</b>
Exchange differences on translating foreign operations	-	-	491,975	-	491,975
Profit for the year	-	-	-	(379,450)	(379,450)
<b>Balance at 31 December 2005</b>	<b>6,563,949</b>	<b>61,243</b>	<b>686,671</b>	<b>1,014,415</b>	<b>6,297,448</b>

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The accompanying notes form an integral part of these financial statements.

**Eurorom Constructii '97 S.R.L.**  
**Cash Flow Statement**  
**for the year ended 31 December 2005**  
*(Currency: Euro ("EURO"), unless otherwise indicated)*

	<u>Notes</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>Profit/(loss) before income tax</b>		<b>(379,449)</b>	<b>1,705,356</b>
<b>Adjustments for:</b>			
Translation adjustment		41,314	194,336
Net finance cost		(151,055)	(151,217)
Depreciation and amortization		18,776	591
Gain from fixed assets sale		-	(12,434)
Provisions for doubtful receivables			
Profit/(loss) from operations before changes in operating assets and liabilities		(470,415)	1,736,632
<b>Net changes in operating assets and liabilities:</b>			
Increase / (Decrease) in inventories		-	1,018,338
Increase / (Decrease) in trade and other receivable		1,476,710	(1,377,031)
Decrease / (Increase) in trade and other payable		(4,664)	(1,212)
<b>Cash generated from operations</b>		<b>1,001,631</b>	<b>1,376,727</b>
Interest paid		(3,846)	(195)
Income tax paid		(3,230)	(39,751)
<b>Net cash from operating activities</b>		<b>994,555</b>	<b>1,336,781</b>
<b>Cash from/(used) in investing activities</b>			
Purchase of investment property		-	169
Decrease in other financial assets		-	1,330,793
Purchase of property, plant and equipment		(158,028)	(22,759)
Proceeds from sale of fixed assets		-	17,000
Decrease / (Increase) in other long term assets		29,825	(2,350,000)
Interest received		24,161	151,412
<b>Net cash from/(used) in investing activities</b>		<b>(104,041)</b>	<b>(873,385)</b>
<b>Cash from/(used) in financing activities</b>			
Proceeds from issuance of shares			
Payment of finance lease liabilities		(14,089)	(8,941)
<b>Net cash from/(used) in financing activities</b>		<b>(14,089)</b>	<b>(8,941)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>876,424</b>	<b>454,455</b>
Cash and cash equivalents at the beginning of the year		454,896	441
<b>Cash and cash equivalents at the end of the year</b>	<b>10</b>	<b>1,331,320</b>	<b>454,896</b>
<b>Non cash transactions:</b>			
Addition in property, plant and equipment under finance lease arrangements		15,136	35,447

The accompanying notes form an integral part of these financial statements.

## **1. Corporate information**

EUROROM CONSTRUCTII'97 SRL (the "Company") was registered as a limited liability company in December 1997. The address of the registered office is Bucharest, 82-92 Nordului, sector 1. The main business of the Company is construction and sale of apartments.

The Company had 1 employee at year ended 31 December 2005 and year ended 31 December 2004. These financial statements have been authorized for issue in accordance with a resolution of the board of administrators on April 7-th, 2006.

## **2. Summary of significant accounting policies**

### **(a) Basis of preparation**

These financial statements are prepared in accordance with International Financial Reporting Standards. The Company maintains and prepares its statutory records ("Statutory Financial Statements") in accordance with Romanian Law and Romanian Accounting Standards and practice, in Romanian currency ("RON"). Since these financial statements have been prepared under IFRS therefore, in preparation of these financial statements adjustments and reclassifications have been made to the Romanian Accounting Standards records. The functional currency of the Company is RON whereas the presentation currency is EURO. The method used for translation of RON balances in to Euro is defined in paragraph (b) hereunder.

### **(b) Foreign currency translation**

The functional currency of the Company is the RON whereas, the presentation currency is Euro. Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities are retranslated into functional currency at the exchange rate ruling at the date of balance sheet, and the resulting exchange gain/loss is then taken to income statement.

For the purpose of translation of functional currency balances into presentation currency the following scheme is followed:

- All assets and liabilities at the year end exchange rate,
- Equity is translated at the historic exchange rates,
- Profit and loss items at the monthly average exchange rate.

The resulting gain/loss on the equity items relating to difference of opening and closing exchange rates and the gain/loss on income statement relating to average exchange rate used for income statement purposes and closing exchange rate for balance sheet purposes is taken to Translation Reserve.

The average and closing exchange rates are given as under:

	<u>2005</u>	<u>2004</u>
Period end rate	3.6771	3.9663
Average rate	3.6234	4.0523

## **2. Summary of significant accounting policies (continued)**

### **(c) Use of estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements, therefore actual results could differ from those estimates.

### **(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

### **(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to the income statement in the period when they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain/loss arising on depreciation of asset is included in the income statement in the year the item is derecognized.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. For IFRS purposes, the rates of depreciation used are based on the following estimated useful lives:

	<u>Useful lives</u>
Vehicles	5-12 years
Equipment	3 to 12 years
Furniture and Fittings	6 to 25 years

Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Expenditures for repairs or maintenance of equipment made to restore or maintain the future economic benefits expected from the assets are recognized as an expense.

## **2. Summary of significant accounting policies (continued)**

### **(f) Impairment of assets**

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount is the greater of selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses, if any, are recognized in the income statement.

### **(g) Investments**

#### *Investment in associate:*

The Company's investment in its associate is accounted for under cost method. This is an entity in which the Company has significant influence. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

#### *Other investments:*

All other investments by the Company are recognized as available for sale investments and are recognized initially at cost. After initial recognition these investments are measured at fair value and any resulting gain/loss, if any, is recognized as a separate component of equity.

### **(h) Intangible assets**

Intangible assets are capitalized at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are amortized on a straight-line basis over five years.

### **(i) Trade and other receivables**

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off when identified.

### **(j) Leases**

Finance leases, which transfer to the Company substantially all the risk and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leases are depreciated over the shorter of the estimated useful life of the asset or the lease term.

## **2. Summary of significant accounting policies (continued)**

### **(k) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After the initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method. Gain and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

### **(l) Borrowing costs**

Borrowing costs are recognized as an expense when incurred, in accordance with the benchmark accounting treatment under IAS 23.

### **(m) Trade and other payables**

Payables are carried at cost, being the fair value of the consideration to be paid in the future for goods and services to be received.

### **(n) Provisions**

Provisions are recorded when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **(o) Pension and other post-retirement benefits**

#### Short-term employee benefits

Short-term employee benefits include wages, salaries and social security contributions, bonuses payables within twelve months after the end of the period in which the employees rendered the service, and non-monetary services as cars, medical care, frees subsidies, meal vouchers Short-term employee benefits are recognized as expenses as services are rendered.

#### Post-employment benefits

The Company makes contributions to the funds set up by the State for pensions, health care and unemployment benefits calculated on the basis of salaries of employees of the Company. The Company does not operate any other retirement scheme and has no obligation to provide further benefits to current or former employees.

#### Termination benefits

The Company is obliged by law to pay termination indemnities in cases of reduction in labor force. Expenses related to termination indemnities are accrued when management decides to adopt a plan that will result in future payments of termination benefits and by the balance sheet date either starts to implement the restructuring plan or communicates the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation that the Company will carry out the restructuring.

## **2. Summary of significant accounting policies (continued)**

### **(p) Income tax**

Tax on the profit or loss for the year comprises current tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case is recognized in equity.

Current tax is the expected tax payable calculated on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Company fulfils the conditions laid down under the Romanian law in order to be classified as the micro enterprise. For such companies, the taxable profit is replaced with the turnover. The effective tax rate as of 31 December 2005 is 3% and 31 December 2004 is 1.5% of turnover.

Being the micro enterprise since the Company pays tax on turnover therefore, no material temporary differences exist which may result in deferred tax.

### **(q) Related parties**

Parties are considered related when one party either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are principal owners, management and members of the Company's Board of Directors and members of their families.

### **(r) Financial instruments**

The carrying amounts of cash and cash equivalents, receivables, payables and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. Financial instruments are recognized when the Company becomes a party to the contract that constitutes the financial instruments.

Management believes that the estimated fair values of these instruments approximate their carrying amounts since these items have predominantly short re-pricing terms, carry interest rates reflecting current market conditions, are settled without significant transaction costs and are mostly short-term in nature.

### **(s) Contingencies**

Contingent liabilities are not recognized in the accompanying 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 accompanying financial statements but disclosed when an inflow of economic benefits is probable.

### 3. Property, plant and equipment

Property, plant and equipment consisted of the following:

	<b>Building</b>	<b>Vehicles</b>	<b>Furniture &amp; Fixture</b>	<b>Total</b>
<b>Cost</b>				
<b>At 31 December 2004</b>	-	<b>35,447</b>	<b>21,493</b>	<b>56,940</b>
Exchange differences	-	2,788	1,690	4,478
Additions	138,752	24,491	17,359	180,602
Disposals / Transfers	-	-	-	-
<b>At 31 December 2005</b>	<b>138,752</b>	<b>62,726</b>	<b>40,542</b>	<b>242,020</b>
<b>Depreciation</b>				
<b>At 31 December 2004</b>	-	<b>591</b>	-	<b>591</b>
Exchange differences	-	46	-	46
Additions	272	12,137	5,911	18,320
Disposals / Transfers	-	-	-	-
<b>31 December 2005</b>	<b>272</b>	<b>12,774</b>	<b>5,911</b>	<b>18,957</b>
<b>Net book value</b>				
<b>At 31 December 2004</b>	-	34,856	21,493	56,349
<b>At 31 December 2005</b>	<b>138,480</b>	<b>49,951</b>	<b>34,631</b>	<b>223,062</b>

*Vehicles under finance lease arrangements:*

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>At 1 January, net of accumulated depreciation</b>	<b>34,855</b>	-
Exchange differences	2,742	-
Additions	24,491	35,446
Depreciation charge for the year	12,137	591
<b>At 31 December, net of accumulated depreciation</b>	<b>49,951</b>	<b>34,855</b>

**Intangible assets**

	<b>Licences</b>	<b>Total</b>
<b>Cost</b>		
<b>At 31 December 2004</b>	<b>1,266</b>	<b>1,266</b>
Exchange differences	100	100
Additions	-	-
Disposals / Transfers	-	-
<b>At 31 December 2005</b>	<b>1,366</b>	<b>1,366</b>
<b>Depreciation</b>		
<b>At 31 December 2004</b>	-	-
Exchange differences	-	-
Additions	455	455
Disposals / Transfers	-	-
<b>31 December 2005</b>	<b>455</b>	<b>455</b>
<b>Net book value</b>		
<b>At 31 December 2004</b>	<b>1,266</b>	<b>1,266</b>
<b>At 31 December 2005</b>	<b>911</b>	<b>911</b>

**4. Investment in associates**

The balance represents amount invested in Lamda Olympic S.R.L., a group company in which the Company holds 50% of the share capital. The Company has contributed land as contribution in kind.

**5. Available for sale financial assets**

The balance represents an amount invested in the shares of Zakola Ventures Limited a company registered in Cyprus in which the Company hold 10% of share capital.

**6. Other financial assets**

Other financial asset represent long term loan given by the company to Zakola Ventures Limited, a group company registered in Cyprus. The loan was received during 2005.

**7. Trade and other receivables**

	<b>31 December 2005</b>	<b>31 December 2004</b>
Tax receivables	-	10,620
Sundry debtors	7,497	930
Receivables from associates	-	1,449,692
Loan to Alsop	2,505,000	-
Interest receivables for loans	130,740	-
Advance payment for Lamda Olympic SRL	44,318	-
Prepayments	-	74
VAT receivable	47,722	-
<b>Total</b>	<b>2,735,278</b>	<b>1,461,316</b>

Receivables from associates represent amount receivable on the decrease of the share capital in Lamda-Olympic SRL.

Alsop and Konderamo are group companies. The loans carry an interest rate of 6% and are repayable in one year.

**8. Cash and cash equivalents**

	<b>31 December 2005</b>	<b>31 December 2004</b>
Cash at bank	1,326,903	453,979
Cash in hand	4,417	917
<b>Total</b>	<b>1,331,320</b>	<b>454,896</b>

**9. Share capital**

As of 31 December 2005 and 2004 the Company has issued 1,534,505 common shares with each share having a nominal value of RON 10.. The only subscriber of the share capital is Mochlos S.A., a company registered in Greece.

	<b>31 December 2005</b>	<b>31 December 2004</b>
Capital subscribed – RON value	15,345,050	15,345,050
Capital subscribed – EURO at period end rate	4,173,139	3,868,858
Functional currency translation adjustment	2,190,810	2,695,091
<b>Capital – EURO total</b>	<b>6,563,949</b>	<b>6,563,949</b>

**10. Finance lease**

The Company has finance lease contracts concluded with Egnatia leasing for two vehicles. The Company considers these leases as being financial. The minimum lease payment under lease arrangement along with present values is as under:

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Break up of minimum lease payment:</b>	<b>41,478</b>	<b>30,633</b>
Within one year	13,875	7,821
Over one to five years	27,603	22,812
Less Future financial charges	5,233	4,897
<b>Present value of minimum lease payment.</b>	<b>36,245</b>	<b>25,736</b>
Within one year	11,062	5,738
Over one to five years	25,183	19,998

**11. Trade and other Payables**

	<b>31 December 2005</b>	<b>31 December 2004</b>
Trade payable and advances to suppliers	9,820	14,606
Sundry creditors	3,652	3,530
<b>Total</b>	<b>14,899</b>	<b>21,131</b>

## 12. Related parties

The following tables provides the total amount of transactions which have been entered in to with related parties for relevant financial years and the corresponding year end balances with the individual related parties:

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Receivables</b>		
Technical Olympic SA Greece – Romanian branch	-	946
Lamda Olympic SRL	44,318	1,449,692
Balotesti Development SRL	100	-
Mochlos SA Greece – Romanian branch	100	-
Saftica Development SRL	100	-
Straulesti Development SRL	100	-
Tei Lake Development SRL	100	-
Alsop	2,628,566	-
Konderamo	7,174	-
Zakola	-	2,350,000
<b>TOTAL</b>	<b>2,680,558</b>	<b>3,800,638</b>
<b>Sales</b>		
Technical Olympic	-	17,000
Balotesti Development SRL	100	-
Mochlos SA Greece – Romanian branch	100	-
Saftica Development SRL	100	-
Straulesti Development SRL	100	-
Tei Lake Development SRL	100	-
Alsop	123,566	-
Konderamo	7,174	-
Zakola	24,468	-
<b>TOTAL</b>	<b>155,708</b>	<b>17,000</b>

## 13. Revenue

The revenue represents amount derived by the Company from sale of land.

## 14. Financial risk management objectives and policies

The principal financial instruments comprise loans, finance leases, cash and cash equivalents, trade and other receivables and accounts payables.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and credit risk. The policies relating to these risks are summarized below:

### a) Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate, which applies to the financial instrument. The Company has long term loan and finance lease, which incurs interest at the fixed rate which expose the Company to interest rate price risk.

***b) Foreign currency risk***

The Company is exposed to foreign exchange risk since it has payables and long-term financing denominated in foreign currencies which are translated at the prevailing exchange rate at balance sheet date. The resulting differences are charged or credited to the income statement. As a result the Company can be affected by the changes in the foreign exchange rates.

The Company does not have any policy to hedge this foreign exchange risk.

***c) Credit risk***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of excess cash holdings, deposits and accounts receivable. The Company places its deposits and excess cash with reputable companies and financial institutions. Management constantly monitors the status of banks where deposits are maintained. The credit risk associated with trade accounts receivable is limited due to the Company's activity.

## 17. Financial instruments

### a) Fair value of financial instruments

The estimated fair value of financial instruments, consisting of cash, deposits, receivables, payables and obligations under debt instruments, are considered to be equal to the carrying value.

### b) Interest rate risk

The following table set out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

	<u>&lt; 1 year</u>	<u>&gt; 1 &lt; 2</u>	<u>&gt; 2 &lt; 3</u>	<u>&gt; 4 &lt; 5</u>	<u>&gt; 5</u>	<u>TOTAL</u>
<b><u>Fixed rate</u></b>						
Leases	11,062	12,100	12,583	501	-	<b>36,245</b>
Loan to Alsop	2,505,000	-	-	-	-	<b>2,505,000</b>

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and, therefore, are not subject to interest rate risk.

## 18. Contingencies

Legislation and regulations regarding taxation, foreign currency transactions and licensing of foreign currency loans in Romania continue to evolve as the government manages the transformation from a command to a market-oriented economy. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, National Bank officials and the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank and Ministry of Finance are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Romania's laws, decrees and related regulations are severe. As a result, penalties and delay payment interest may result in a significant amount payable to the State.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision for taxes is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. No such accruals have been made.

Because of the uncertainties associated with the Romanian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued at 31 December 2005. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both

The Company's operations and financial position will continue to be affected by Romanian political developments, including the application of existing and future legislation and tax regulations. These developments could have a significant impact on the Company's operations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Romania.