

**DRAFT**

**ABC LTD..**  
**Annual Report**  
**March 1, 2005 – February 28, 2006**



**ABC LTD..**

**Englandland**  
**ID# 2699**

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## Auditor's Report

To the board of directors and shareholders of ABC LTD..

We have audited the accompanying financial statements for ABC LTD.. from March 1st, 2005 to February 28th, 2006. This report includes the Management Report, Income Statement, Balance Sheet and the Statement of Cash Flow. These financial statements are the responsibility of the ABC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conduct our audit in accordance with generally accepted auditing standards in England. 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 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 combined financial statements give a true and fair view of the combined financial position of ABC LTD.. as of February 28<sup>th</sup>, 2006, and of the combined results of its operations and its combined cash flows for the year then ended in accordance with generally accepted accounting principles in England, applied on a consistent basis.

London, July 5<sup>th</sup>, 2006

Deloitte .

Einar  
State Authorized Public Accountant



## **Management Report**

ABC's fiscal year is from March 1<sup>st</sup> to February 28<sup>th</sup> every year. ABC's net profit for the year starting March 1<sup>st</sup>, 2005 and ending February 28<sup>th</sup>, 2006 was 236.287.510 EU (3,375,535 USD). According to ABC's Balance Sheet the Total Assets amount to 8.769.720.169 EU (125,281,717 USD) and Shareholders' Equity amounts to 1.450.868.617 EU (20,726,695 USD).

At the end of the fiscal year ABC LTD.. had only one shareholder.

The board refers to the annual report in regards to any changes in shareholders' equity and the allocation of profits.

It is the opinion of ABC's board and management that this annual report truly represents the financial state of the company for the fiscal year ending February 28<sup>th</sup>, 2006. The signatures of the board and management hereby agree to this annual report.

London July 5<sup>th</sup>, 2006

The Board

The Management

## Income Statement

	Notes	March 1 <sup>st</sup> , 2005 – Feb. 28 <sup>th</sup> , 2006	
		<u>USD</u>	<u>EU</u>
Total income		530,855	37.159.910
Wages and benefits	3	(342,876)	(24.001.319)
Overhead		(1,810,111)	(126.707.813)
Other operating cost		<u>(173,325)</u>	<u>(12.132.753)</u>
Net profit (loss)		(1,795,457)	(125.681.975)
Earnings from subsidiaries		(6,071)	(425.000)
Revenue	4	14,641,426	1.024.899.817
Expenses	5	<u>(8,723,391)</u>	<u>(610.637.342)</u>
EBIT		4,116,507	288.155.500
Taxes	6	<u>(740,971)</u>	<u>(51.867.990)</u>
<b>Net profit</b>		<b><u>3,375,535</u></b>	<b><u>236.287.510</u></b>

## Balance Sheet February 28<sup>th</sup>, 2006

	Notes		Feb. 28 <sup>th</sup> , 2006
		<u>USD</u>	<u>EU</u>
<b>Assets</b>			
Investment in subsidiaries	7	<u>48,830</u>	<u>3.418.131</u>
Fixed assets		<u>48,830</u>	<u>3.418.131</u>
<b>Current Assets</b>			
Accounts receivable	8	8,744	612.088
Accounts rec. from subsidiaries		192,978	13.508.431
Other receivables		3,082,994	215.809.554
Market Securities		92,147,414	6.450.319.049
Cash and cash equivalents		<u>29,800,755</u>	<u>2.086.052.916</u>
Current assets		<u>125,232,886</u>	<u>8.766.302.038</u>
<b>Total assets</b>		<b><u>125,281,717</u></b>	<b><u>8.769.720.169</u></b>
 <b>Shareholders' Equity and Liabilities</b>			
		<u>USD</u>	<u>EU</u>
<b>Shareholders' Equity</b>			
Capital stock	9	14,286	1.000.000
Paid-in capital		17,336,872	1.213.581.107
Retained earnings		<u>3,375,535</u>	<u>236.287.510</u>
<b>Total Shareholders' Equity</b>		<b><u>20,726,695</u></b>	<b><u>1.450.868.617</u></b>
<b>Long Term Liabilities</b>			
Deferred income tax liability	10	<u>740,971</u>	<u>51.867.990</u>
Total Long Term Liabilities		<u>740,971</u>	<u>51.867.990</u>
<b>Current Liabilities</b>			
Accounts payable	11	2,108,729	147.611.052
Debt to financial institutions		95,330,024	6.673.101.688
Debt to shareholder		6,290,104	440.307.306
Other current liabilities		<u>85,193</u>	<u>5.963.516</u>
Current Liabilities		<u>103,814,050</u>	<u>7.266.983.562</u>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>125,281,717</u></b>	<b><u>8.769.720.169</u></b>

## Cash Flow for the year March 2005 – February 2006

	Notes	<u>USD</u>	<u>EU</u>
<b>Cash flow from operating activities</b>			
Net profit (loss)		<u>(1,795,457)</u>	<u>(125.681.975)</u>
Total cash from operating activities		<u>(1,795,457)</u>	<u>(125.681.975)</u>
Accounts receivables (increase) decrease		(627,038)	(43.892.678)
Accounts payable increase (decrease)		<u>2,193,922</u>	<u>153.574.568</u>
Total cash from op.act. less interest and taxes		(228,573)	(16.000.085)
Interests and dividends paid		308,214	21.574.978
Taxes paid		<u>(3,757,592)</u>	<u>(263.031.409)</u>
Net cash provided by operating activities		<u>(3,677,950)</u>	<u>(257.456.516)</u>
<b>Investing Activities</b>			
Net market securities		12,914,613	904.022.951
Investments in subsidiaries		(54,902)	(3.843.131)
Changes in loans to subsidiaries		(192,978)	(13.508.431)
Changes in loans to assoc. companies		<u>451,274</u>	<u>31.589.156</u>
Total Investing Activities		<u>13,118,008</u>	<u>918.260.545</u>
<b>Financing Activities</b>			
Paid in capital	9	14,285,714	1.000.000.000
Loan from shareholder		<u>6,074,984</u>	<u>425.248.887</u>
		<u>20,360,698</u>	<u>1.425.248.887</u>
Increase/decrease in cash		29,800,756	2.086.052.916
Starting cash		<u>0</u>	<u>0</u>
<b>Cash at end of year</b>		<b><u>29,800,756</u></b>	<b><u>2.086.052.916</u></b>

## Notes

### 1. Operations

ABC LTD.. is a private limited company and operates according to the England law number 138/1904 concerning privately limited companies.

ABC LTD.. started its operations in the year 2005. It is a consulting and investing company. The mission of the company is to oversee investments that are directly or indirectly owned by the company and work toward finding new investments in the retail and real estate market.

### 2. Accounting Methods

#### Basis for the Accounting Methods

ABC's annual report for the year starting March 1<sup>st</sup>, 2005 and ending February 28<sup>th</sup>, 2006, has been prepared according to laws and regulations of the generally accepted accounting principles. This annual report is done in England (EU), which is the local currency in England.

Following are main accounting methods summarized.

#### Subsidiaries

Subsidiaries are companies that can be influenced by their parent company in making financial and operational decisions. The annual report includes operational results and shareholders' equity of its subsidiaries.

#### REU Management

The company limits its foreign currency and interest EU.

It has forward currency- and optional contracts that have a set exchange rate, which limits the EU. Changes in the current price derivative contracts are moved into the income statement.

#### Foreign Currency

Transactions in foreign currencies are recorded on the same days' exchange rate. Assets and liabilities in foreign currencies are recorded on the year-end exchange rate. Foreign exchange gain or loss is recorded on the income statement.

#### Expenses

Expenses are recorded on the income statement on the date the transactions occurred.

### Taxes

Taxes are calculated and added into the annual report. Deferred tax and estimated future tax benefits are accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally entered for all taxable temporary differences, and estimated future tax benefits are recognized to the extent that it is probable that taxable profits will be available from which deductible temporary differences can be subtracted. The tax rate in England is 18 percent.

### Stocks

Market securities are stocks that are registered in the open market and the purpose of buying them is to make profit on the short-term changes. Market securities are recorded by market price on the date of the transaction.

### Accounts Receivable

Short-term receivables are accounted for at nominal value while taking exchange rates into account.

### Long-Term Liabilities

Long-term liabilities are accounted for at nominal value less payments made on the principal. Interest rates are recorded on the income statement at the time they occur.

### Accounts Payable

Accounts payables are accounted for at nominal value while taking exchange rates into account.

### Commitments

Deferred commitments are recorded on the balance sheet if it's likely that they will be needed for a specific event or business in the near future.

## **3. Wages and benefits**

	<u>USD</u>	<u>EU</u>
Wages	294,809	20.636.658
Benefits	<u>48,067</u>	<u>3.364.661</u>
	<u>342,876</u>	<u>24.001.319</u>
Average number of employees		<b>4</b>
Total wages and benefits to the board members	107,143	7.500.000

## **4. Financial Income**

Interest income	1,078,970	75.527.923
Gain on sale of stocks	12,914,614	904.022.951
Stock dividends	446,538	31.257.678
Exchange rate gain	191,834	13.428.378
Other interest income	<u>8,898</u>	<u>662.887</u>
	<u>14,641,426</u>	<u>1.024.899.817</u>

## 5. Financial Expenses

Interest expenses on long-term debt	(215,120)	(15.058.419)
Interest expenses and brokerage fees	(5,028,199)	(351.973.904)
Exchange rate loss	(254,510)	(17.815.702)
Interest expenses on loans	(933,982)	(65.378.709)
Changes in stock market price	1,121,531	78.507.197
Difference in exchange rate on loans	(3,411,256)	(238.787.933)
Other interest expenses	<u>(1,855)</u>	<u>(129.872)</u>
	<u>(8,723,391)</u>	<u>(610.637.342)</u>

## 6. Taxation

Corporate income tax is recorded on the income statement at 50.9 million EU (727,143 USD). The deferred tax liability matches the 50.9 million EU, and therefore no income tax will be paid in the year 2006.

## 7. Subsidiaries and Associated Companies

Ownership in subsidiaries and associated companies are recorded according to its share. The subsidiaries were established in the year 2005 and have just recently started its operations. The booked value on LTD.. is 0 EU due to the negative 6.5 million EU equity at the end of the year.

	<u>Share</u>	<u>Nominal Value</u>	<u>Book Value</u>	<u>Operations</u>
<b>Ownership in subsidiaries:</b>		<b><u>EU</u></b>		
England	85%	425.000	0	Holding Company
Bulgaria	100%	216.533	216.533	Real Estate Co.
Bulgaria	100%	197.485	197.485	Real Estate Co.
Romania	100%	34.141	34.141	Real Estate Co.
Romania	100%	34.141	34.141	Real Estate Co.

### Ownership in associated companies:

A	30%	<u>2.935.831</u>	<u>2.935.831</u>
<b>Total</b>		<b><u>55.720 USD</u></b>	<b><u>3.900.431 EU</u></b>

## 8. Current Assets

	<u>USD</u>	<u>EU</u>
Domestic assets	<u>8,744</u>	<u>612.088</u>
	8,744	612.088
A/R from subsidiaries	2,614,171	182.991.951
Taxes	107,177	7.502.410
Interest receivables	295,996	20.719.691
Loans	62,758	4.393.029
Advanced salaries	<u>2,892</u>	<u>202.473</u>
	<u>3,082,994</u>	<u>215.809.554</u>

A/R from subsidiaries or associated companies

	<u>USD</u>	<u>EU</u>
CBD LTD.	139,246	9.747.232
ABSO	<u>53,731</u>	<u>3.761.199</u>
	<u>192,977</u>	<u>13.508.431</u>

### Market Securities

Market securities are short-term stocks. They are moved into the income statement at the market price.

Balance at beginning of year	0	0
Purchased this year	90,579,345	6.340.554.174
Dividends paid	446,538	31.257.678
Inflation adjustments	<u>1,121,531</u>	<u>78.507.196</u>
Balance at end of year	<u>92,147,415</u>	<u>6.450.319.048</u>

### Cash and cash equivalents

Cash and cash equivalents represents cash available on hand

Term deposits in EU	19,147,962	1.340.357.374
Unrestricted deposits in EU	440,922	30.864.521
Unrestricted deposits in foreign currencies	<u>10,211,872</u>	<u>714.831.021</u>
	<u>29,800,756</u>	<u>2.086.052.916</u>

### 9. Shareholders' Equity Share

	<u>USD</u>	<u>EU</u>
Shareholders' Equity at year end 100%	14,286	1.000.000

One vote comes with every króna share in the company.

	<u>Capital</u>	<u>Paid-In Cap</u>	<u>Retained Earnings</u>
New capital	1.000.000	1.213.581.107	0
Net profit			236.287.510
Shareholders' Equity Feb.28 <sup>th</sup> 2006 EU	<u>1.000.000</u>	<u>1.213.581.107</u>	<u>236.287.510</u>
Shareholders' Equity USD	<u>14,286</u>	<u>17,336,873</u>	<u>3,375,536</u>

### 10. Deferred Income Tax Liability

	Tax credit	Tax liability	Total
Balance as of March 1, 2005	0	0	0
Calculated income tax	0	51.867.990	51.867.990
Income tax payable	<u>0</u>	<u>0</u>	<u>0</u>
Balance as of Feb.28, 2006	<u>0</u>	<u>51.867.990</u>	<u>51.867.990</u>
Balance in USD	<u>0</u>	<u>740,971</u>	<u>740,971</u>

Breakdown of items on balance sheet:

Equity in subsidiaries and associated co.	740,971	51.867.990
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## 11. Short Term Liabilities

	<u>USD</u>	<u>EU</u>
Foreign liabilities	<u>2,108,729</u>	<u>147.611.052</u>
	<u>2,108,729</u>	<u>147.611.052</u>
Loans from financial institutions		
KB Ltd.	45,911,551	3.213.808.568
L Ltd..	<u>49,418,473</u>	<u>3.459.293.120</u>
	<u>95,330,024</u>	<u>6.673.101.688</u>
Loan from shareholder		
Informal promissory note with 14,9% interest		
Other short-term loans		
Taxes	57,459	4.022.131
Unpaid loans and benefits	<u>27,734</u>	<u>1.941.385</u>
	<u>85,193</u>	<u>5.963.516</u>

## 12. Mortgages and Commitments

The company is responsible for FGH LTD..'s loan from Land ltd. for the amount of 875.000 EUR.

The company has pledged their assets to some extent as a collateral for market securities. At the end of the year the debt amounts to 6.673.101.688 EU (95,330,204 USD). Below are assets collaterals:

	<u>USD</u>	<u>EU</u>
Market securities	92,147,415	6.450.319.048
Cash – term deposits	<u>19,147,962</u>	<u>1.340.357.374</u>
	<u>111,295,377</u>	<u>7.790.676.422</u>

## 13. Cash Flow

The market securities that the company invested in are recorded on the annual report. The purchased securities do not show up on the Statement of Cash Flow due to them being paid for by loans.

### Summarized Operating Activities

Net profit	3,375,536	236.287.510
Financial expenses	(10,403,697)	(728.258.796)
Other changes	<u>740,971</u>	<u>51.867.990</u>
Gross working capital	<u>(6,287,190)</u>	<u>(440.103.296)</u>
Changes in:		
Operating assets	(924,105)	(64.687.369)
Operating liabilities	<u>3,533,345</u>	<u>247.334.149</u>
Net working capital	<u>(3,677,950)</u>	<u>(257.456.516)</u>

## Breakdown of Accounts

	<u>USD</u>	<u>EU</u>
<b>Operating income</b>		
Service sold to subsidiaries and associated co.	530,856	37.159.910
<b>Wages and benefits</b>		
Salaries	294,809	20.636.658
Car bonus	4,786	335.000
Insurance	18,502	1.295.136
Social security	22,195	1.553.620
Sick and leave	1,760	123.184
Other employee cost	<u>825</u>	<u>57.721</u>
	<u>342,876</u>	<u>24.001.319</u>
<b>Overhead</b>		
Outsourced service for stock investing	1,421,699	99.518.924
IT cost	5,011	350.747
Phone	29,098	2.036.875
Postage and deliveries	1,814	126.974
Small office equipment	1,769	123.822
Other outsourced service	90,958	6.367.053
Large office equipment	25,523	1.786.640
Insurance	1,873	131.099
Licensing fees	<u>232,367</u>	<u>16.265.679</u>
	<u>1,810,112</u>	<u>126.707.813</u>
<b>Other Operating Cost</b>		
Rental fees	21,476	1.503.329
Car expenses	4,877	341.361
Travel	87,946	6.156.219
Allowance	49,850	3.489.508
Guest reception	3,619	253.301
Other cost	<u>5,558</u>	<u>389.035</u>
	<u>173,325</u>	<u>12.132.753</u>