Crowe Horwath™

Horwath DSP Limited
Member Crowe Horwath International

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MARKELIA ENTERPRISES COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS
31 December 2011

MARKELIA ENTERPRISES COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS
31 December 2011

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Irene Savvides Vasilios Trikoupis
Company Secretary:	Adam Montanios 16 Panteli Katelari street Diagoras House 1097 Nicosia, Cyprus
Independent Auditors:	Horwath DSP Limited Certified Public Accountants and Registered Auditors Photiades Business Centre 1st floor, 8 Stassinos Avenue P.O. Box 22545 1522 Nicosia
Registered office:	16 Panteli Katelari street Diagoras House, 7th floor 1097 Nicosia Cyprus

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited financial statements of the Company for the year ended 31 December 2011.

Principal activities
The principal activities of the Company, which are unchanged from last year, are the holding of investments and provision of finance.

Review of current position, future developments and significant risks
The Company's development to date, financial results and position as presented in the financial statements are not considered satisfactory and the Board of Directors is making an effort to reduce the Company losses.

The main risks and uncertainties faced by the Company and the steps taken to manage these risks, are described in note 3 of the financial statements.

Results
The Company's results for the year are set out on page 5. The net loss for the year is carried forward.

Share capital
There were no changes in the share capital of the Company during the year under review.

Board of Directors
The members of the Company's Board of Directors as at the date of this report are presented on page 1. All of them were members of the Board of Directors throughout the year ended 31 December 2011.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the reporting period
Any significant events that occurred after the end of the reporting period are described in note 14 to the financial statements.

Independent Auditors
The Independent Auditors, Horwath DSP Limited, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,

Irene Savvides
Director

Nicosia, 3 February 2012

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Independent auditor's report

To the Members of Markelia Enterprises Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Markelia Enterprises Company Limited (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report (continued)

To the Members of Markelia Enterprises Company Limited

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Markelia Enterprises Company Limited as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Chrysis Pegasiou ACA
Certified Public Accountant and Registered Auditor
for and on behalf of
Horwath DSP Limited
Certified Public Accountants and Registered Auditors

Nicosia, 3 February 2012

MARKELIA ENTERPRISES COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	Note	**2011** €	2010 €
Loan interest income		**616.100**	799.845
Bank interest income		**-**	4.726
Loan interest expense		**(497.860)**	(672.095)
Net interest income		**118.240**	132.476
Administration expenses		**(104.757)**	(1.295)
Operating profit		**13.483**	131.181
Net finance (costs) / income	6	**(903)**	410
Profit before tax		**12.580**	131.591
Tax	7	**(40.690)**	(58.318)
Net (loss) / profit for the year		**(28.110)**	73.273
Other comprehensive income		**-**	-
Total comprehensive (loss)/ income for the year		**(28.110)**	73.273

The notes on pages 9 to 15 form an integral part of these financial statements.

MARKELIA ENTERPRISES COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
31 December 2011

	Note	2011 €	2010 €
ASSETS			
Non-current assets			
Non-current loans receivable	8	**9.798.975**	12.429.489
		9.798.975	12.429.489
Current assets			
Loans receivable	8	**5.023.977**	4.706.561
Cash at bank	9	**1.643**	878.198
		5.025.620	5.584.759
Total assets		**14.824.595**	18.014.248
EQUITY AND LIABILITIES			
Equity			
Share capital	10	**1.000**	1.000
Retained earnings		**60.475**	88.585
Total equity		**61.475**	89.585
Current liabilities			
Trade and other payables	12	**10.115**	3.243
Borrowings	11	**14.753.005**	17.921.420
		14.763.120	17.924.663
Total equity and liabilities		**14.824.595**	18.014.248

On 3 February 2012 the Board of Directors of Markelia Enterprises Company Limited authorised these financial statements for issue.

....
Irene Savvides
Director

....
Vasilios Trikoupis
Director

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2011

	Share capital €	Retained earnings €	Total €
Balance at 1 January 2010	**1.000**	**15.312**	**16.312**
Comprehensive income			
Net profit for the year	-	73.273	73.273
Balance at 31 December 2010/ 1 January 2011	**1.000**	**88.585**	**89.585**
Comprehensive income			
Net loss for the year	-	(28.110)	(28.110)
Balance at 31 December 2011	**1.000**	**60.475**	**61.475**

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011 and 17% thereafter) will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

MARKELIA ENTERPRISES COMPANY LIMITED

CASH FLOW STATEMENT
Year ended 31 December 2011

	Note	**2011**	2010
		€	€
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**12.580**	131.591
Adjustments for:			
Interest income		**(616.100)**	(804.571)
Interest expense	6	**497.860**	672.095
Cash flows used in operations before working capital changes		**(105.660)**	(885)
Decrease in trade and other payables		**(7.780.150)**	(9.820)
Cash flows used in operations		**(7.885.810)**	(10.705)
Interest received		**-**	4.726
Tax paid		**(40.690)**	(58.318)
Net cash flows used in operating activities		**(7.926.500)**	(64.297)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans repayments received		**3.095.495**	-
Net cash flows from investing activities		**3.095.495**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		**3.954.450**	-
Net cash flows from financing activities		**3.954.450**	-
Net decrease in cash and cash equivalents		**(876.555)**	(64.297)
Cash and cash equivalents:			
At beginning of the year		**878.198**	942.495
At end of the year	9	**1.643**	878.198

The notes on pages 9 to 15 form an integral part of these financial statements.

1. Incorporation and principal activities

Country of incorporation

The Company Markelia Enterprises Company Limited (the "Company") was incorporated in Cyprus on 14 May 2008 as a private limited liability Company under the Cyprus Companies Law, Cap. 113. Its registered office is at 16 Panteli Katelari street, Diagoras House, 7th floor, 1097 Nicosia, Cyprus.

Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding of investments and provision of finance.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and 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. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company.

Revenue recognition

Revenues earned by the Company are recognised on the following bases:

- **Interest income**

  Interest income is recognised on a time-proportion basis using the effective interest method.

Finance income

Finance income includes interest income which is recognised based on an accrual basis.

2. Accounting policies (continued)

Finance costs

Interest expense and other borrowing costs are charged to profit or loss as incurred.

Foreign currency translation

(1) **Functional and presentation currency**
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro (€), which is the Company's functional and presentation currency.

(2) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Tax

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank.

Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2. Accounting policies (continued)

Share capital

Ordinary shares are classified as equity.

3. Financial risk management

Financial risk factors
The Company is exposed to interest rate risk, credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

3.1 Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

3.2 Credit risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

3.3 Liquidity risk
Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

3.4 Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

3.5 Capital risk management
The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4. Critical accounting estimates and judgments (continued)

- **Income taxes**

  Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Expenses by nature

	2011	2010
	€	€
Loan interest expense	**497.860**	672.095
Auditors' remuneration - current year	**5.125**	5.000
Auditors' remuneration - prior years	**-**	1.295
Other professional fees	**5.961**	2.437
Recharge to holding company	**(14.329)**	(7.437)
Investment advisory services	**108.000**	-
Total expenses	**602.617**	673.390

6. Finance income / cost

	2011	2010
	€	€
Exchange profit	**-**	474
Finance income	**-**	474
Net foreign exchange transaction losses	**(201)**	-
Other finance expenses	**(702)**	(64)
Finance costs	**(903)**	(64)
Net finance (costs) / income	**(903)**	410

7. Tax

	2011	2010
	€	€
Withholding tax on interest receivable	**40.690**	58.318
Charge for the year	**40.690**	58.318

7. Tax (continued)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2011	2010
	€	€
Profit before tax	**12.580**	131.591
Tax calculated at the applicable tax rates	**1.258**	13.159
Tax effect of expenses not deductible for tax purposes	**10.820**	-
Tax effect of allowances and income not subject to tax	**-**	(47)
Withholding tax on interest receivable	**28.612**	45.206
Tax charge	**40.690**	58.318

The corporation tax rate is 10%.

Under certain conditions interest income may be subject to defence contribution at the rate of 15% (10% to 30 August 2011). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011and 17% thereafter).

8. Non-current loans receivable

	2011	2010
	€	€
Loans receivable	**14.822.952**	17.136.050
	14.822.952	17.136.050
Less current portion	**(5.023.977)**	(4.706.561)
Non-current portion	**9.798.975**	12.429.489

The Company has two loans receivable at the year end, assigned from its shareholder. The first loan amounting to €9.798.975 (US$ 12.725.941) is payable by 5 November 2024 and bears an annual interest of 3 months LIBOR +3%. The second loan amounting to €5.023.977 (US$ 6.524.646) is payable on demand and bears an annual interest of 4,95%. The first loan is pledged by properties held by the borrower.

The fair value of receivable loans approximates to their carrying amounts as presented above.

9. Cash at bank

For the purposes of the cash flow statement, the cash and cash equivalents include the following:

	2011	2010
	€	€
Cash at bank	**1.643**	878.198
	1.643	878.198

10. Share capital

	2011 Number of shares	2011 €	2010 Number of shares	2010 €
Authorised				
Ordinary shares of €1 each	**10.000**	**10.000**	10.000	10.000
Issued and fully paid				
Balance at 1 January	**1.000**	**1.000**	1.000	1.000
Balance at 31 December	**1.000**	**1.000**	1.000	1.000

11. Borrowings

	2011 €	2010 €
Balance at 1 January	**17.921.420**	22.261.982
Repayments	**(3.954.450)**	(6.758.392)
Interest expense	**497.860**	672.095
Unrealised exchange difference	**288.175**	1.745.735
Balance at 31 December	**14.753.005**	17.921.420

	2011 €	2010 €
Current borrowings		
Loans from shareholders (Note 13)	**14.753.005**	17.921.420

12. Trade and other payables

	2011 €	2010 €
Shareholders' current accounts - credit balances (Note 13)	**10.115**	-
Other creditors	**-**	3.243
	10.115	3.243

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

13. Related party transactions

The following transactions were carried out with related parties:

13.1 Loans from shareholders (Note 11)

	2011	2010
	€	€
As at 31 December	**14.753.005**	17.921.420
	14.753.005	17.921.420

The Company has four loans from its shareholder at the year end. The first two loans, amounting to €7.326.412 (US$ 9.514.823) and €2.442.138 (US$ 3.171.608) bear an annual interest of 3 months LIBOR + 2,65%. The other two loans, amounting to €3.738.341 (US$4.854.988) and € 1.246.114 (US$ 1.618.329) bear an annual interest of 4,6%. During the year, interest expense of €4.978.860 (2010: €672.095) was charged to the statement of comprehensive income in relation to these loans.

13.2 Shareholders' current accounts - credit balances (Note 11) (Note 12)

	2011	2010
	€	€
As at 31 December	**10.115**	-
	10.115	-

The shareholders' current accounts are interest free, and have no specified repayment date.

14. Events after the reporting period

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

Independent Auditor's report on pages 3 and 4