

Ms. Raluca Tocu
Avrig 35 SRL
59 Berthelot
Bucharest 1

17 November 2002

Re: Steps for acquisition of land in Jiului Street

Dear Mrs. Tocu,

Further to the e-mail message of 16 November 2003, we have re-adjusted the draft steps and related accounting entries in respect of the acquisition of land located in Jiului Street upon your suggestion.

We outline below, for reference, the deal issues:

1. From a tax perspective:
 - a. The input VAT of USD 45,600 in Avalon Grup SRL will be compensated against the output VAT.
 - b. The input VAT of USD 91,200 in Koilada Invest SRL may be difficult to be recovered from the Romanian state.
 - c. The financing of Koilada Invest SRL will be made by means of equity and until the merger with CDG Investment SRL no debt will exist in this company.
2. From a financial perspective:
 - a. Before acquiring the shares in Koilada Invest SRL, CDG Investment SRL should obtain representations and warranties regarding the liabilities of the target company.
 - b. If Koilada LLC will not accept to buy 50% of alphabet shares at the level of the Cyprus holding company, then a parallel structure would need to be implemented which will imply additional costs.
 - c. A pledge on shares and securities for repayment of the amount of USD 740,000 needs to be granted by Koilada LLC and reviewed if sufficient coverage is granted.

Should you need further information please do not hesitate to contact us.

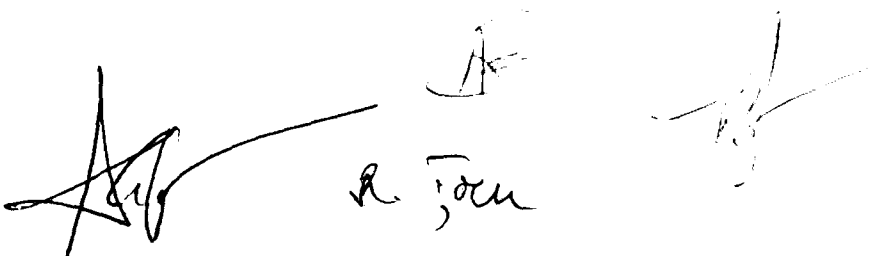
Yours sincerely,

Edwin Warmerdam
Tax Director

Ana Birta
Senior Tax Consultant

Cc: Mr. Alexander Hergan

EW/AB/AO



Background

As we understand, you are interested in the acquisition of a land located in Jiului Street, Sector 1, Bucharest, from its current owner, Apromatco SA (Apromatco), a company listed on Rasdaq stock exchange.

Currently, Broadhurst Investments Ltd (Broadhurst) holds 11% of the shares in Apromatco and Arboria Manufacturing SRL (Arboria) has a 75% participation. Mr. Grigoriu is shareholder in Arboria.

Also, we understand that Mr. Grigoriu is shareholder of Koilada LLC, a US based company, which in turn is sole shareholder in Koilada Invest SRL.

The land has been divided in three plots, on which two separate projects would be developed, as follows:

- one plot of land of 18,000 sqm, valued at USD 240,000 (exclusive of VAT);
- two plots of land of 37,000 sqm in total, valued at USD 480,000 (exclusive of VAT).

The sale of the land will be financed from HVB loans, contracted by Avrig 35 SRL (Avrig). The total value of the loan would be of USD 2,291,200.

We present below for discussion purposes the steps to be performed in order to make the land acquisition and the related accounting entries.

1. Contracting of the loan by Avrig

Dr	Cash	USD 2,291,200	
	Cr	HVB Loan	USD 2,291,200

Being HVB loan registered in Avrig

Conclusion:




- Available cash to use – USD 2,291,200

2. Koilada LLC buys the shares that Broadhurst holds in Apromatco, which are valued at USD 220,000

2.1. Avrig grants a loan of USD 220,000 to CDG, based on a loan agreement

Dr	Cash	USD 220,000	
	Cr	Avrig loan	USD 220,000

Being loan taken from Avrig registered in CDG

  
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2.2. CDG would buy the shares that Broadhurst holds in Apromatco and would sell them to Koilada LLC

Before the shares are bought for the value of USD 220,000, CDG should sign with Koilada LLC an irrevocable purchase option for the shares in Apromatco.

Dr	Shares in Apromatco	USD 220,000	
	Cr	Cash	USD 220,000

Being acquisition of shares registered in CDG

Dr	Receivable from Koilada LLC	USD 220,000	
	Cr	Shares in Apromatco	USD 220,000

Being sale of shares registered in CDG

Further to this operation, CDG remains with a receivable from Koilada LLC of USD 220,000.

Conclusion further to Step 1 & 2:

- Available cash to use (in Avrig) - USD 2,071,200
- CDG has a liability to Avrig of USD 220,000
- Koilada LLC has a liability to CDG of USD 220,000

3. Acquisition of the plot of land of 18,000 sqm by Avalon Grup SRL (Avalon)

3.1. Avalon takes up a loan from Avrig for the value of USD 285,600

Dr	Cash	USD 285,600	
	Cr	Avrig Loan	USD 285,600

Being Avrig loan registered in Avalon

Dr	Receivable from Avalon	USD 285,600	
	Cr	Cash	USD 285,600

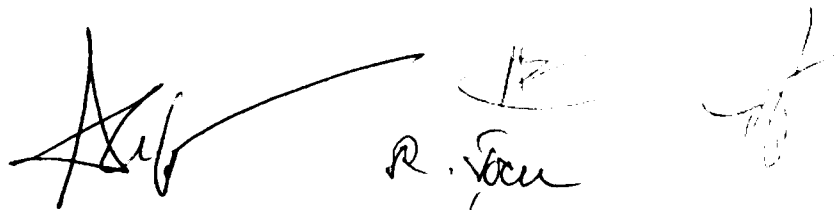
Being loan granted to Avalon registered in Avrig

3.2. Acquisition of land by Avalon from Apromatco

Dr	Land	USD 240,000	
Dr	Input VAT	USD 45,600	
	Cr	Cash	USD 285,600

Being acquisition of land registered in Avalon

Further to this operation, Apromatco will register output VAT of USD 45,600 to be paid to the Romanian tax authorities. Avalon will recover the input VAT from the tax authorities and will use the amount of USD 45,600 to reimburse Avrig loan. Further to this operation, Avalon will remain with a liability of USD 240,000 to Avrig.



3.3. Avalon will perform a legal split

Depending on the investors' intention, the land acquired in Avalon could be split into a new company, together with the loan contracted from Avrig for the acquisition of the land.

For the purpose of the split, an asset revaluation should be performed.

Conclusion further to steps 1,2 & 3:

- Available cash to use (in Avrig) - USD 1,785,600
- CDG has a liability to Avrig of USD 220,000
- Koilada LLC has a liability to CDG of USD 220,000
- Avalon has a liability of 285,600 to Avrig
- The Romanian tax authorities should refund USD 45,600 to Avalon
- Apromatco has cash available of USD 240,000 from the sale of land

4. Acquisition of the two plots of land in total area of 37,000 sqm

4.1. CDG Investment SRL (CDG) would take up a loan from Avrig of USD 1,785,600

Dr	Cash	USD 1,785,600
	Cr	Avrig Loan
		USD 1,785,600

Being Avrig loan registered in CDG

Dr	Receivable from CDG	USD 1,785,600
	Cr	Cash
		USD 1,785,600

Being loan granted to CDG registered in Avrig

4.2. Koilada Invest SRL will contract a loan from CDG for USD 571,200 for acquisition of the land

Dr	Cash	USD 571,200
	Cr	CDG loan
		USD 571,200

Being loan contracted from CDG registered in Koilada Invest SRL

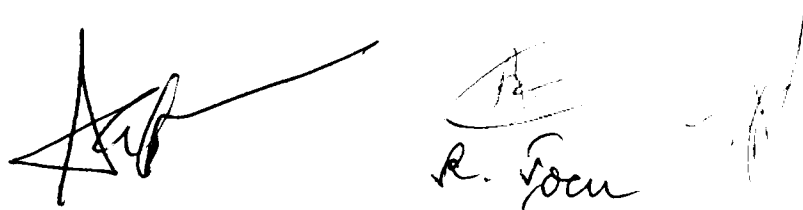
Dr	Receivable from Koilada Invest SRL	USD 571,200
	Cr	Cash
		USD 571,200

Being loan granted to Koilada Invest SRL registered in CDG

4.3. Apromatco will sell the land to Koilada Invest SRL

Dr	Land	USD 480,000
Dr	Input VAT	USD 91,200
	Cr	Cash
		USD 571,200

Being acquisition of land registered in Koilada Invest SRL



Further to the sale, Apromatco would register output VAT of USD 91,200 to be paid to the tax authorities. Koilada Invest SRL will recover the input VAT of USD 91,200 from the tax authorities and will use the amount of USD 91,200 to reimburse the CDG loan.

4.4. CDG buys from Koilada LLC 100% of the shares in Koilada Invest SRL

A share purchase agreement should be concluded. The agreement should state that CDG buys 100% of the shares in Koilada Invest SRL. This transaction will be performed for an price of USD 1,480,000. However, at this stage the cash available in CDG is of USD 1,214,400. The difference of USD 265,600 would remain as a payable to Koilada LLC and could be settled as follows:

- offset of the amount of USD 220,000 between the payable to Koilada LLC and receivable from Koilada LLC;
- the difference of USD 45,600 will be paid when CDG will be reimbursed by Koilada Invest SRL the amount of USD 91,200, which represents VAT to be recovered from the state in Koilada Invest SRL.

Dr	Shares in Koilada Invest SRL	USD 1,480,000
	Cr Cash	USD 1,214,400
	Cr Payable to Koilada LLC	USD 265,600

Being the purchase of shares registered in CDG

Dr	Cash	USD 1,214,400
Dr	Receivable from CDG	USD 265,600
	Cr Shares in Koilada Invest SRL	USD 1,480,000

Being the sale of shares registered in Koilada LLC

4.5. Offset of the liability of USD 220,000

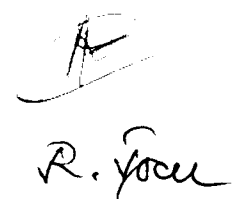
Further to Step 2.2, CDG has a receivable of USD 220,000 from Koilada LLC. Further to Step 4.4, CDG has a payable of USD 220,000 to Koilada LLC.

Therefore, an offset can be made in this respect.

Dr	Payable to Koilada LLC	USD 220,000
	Cr Receivable from Koilada LLC	USD 220,000

Being offset registered in CDG

Further to the offset, CDG will remain with a liability to Koilada LLC of USD 45,600 (which in fact represents 50% of the VAT to be recovered from the state by Koilada Invest SRL).


4.6. An amount of USD 480,000 from the loan received by Koilada Invest SRL from CDG will be converted into share capital

In order to perform this operation, CDG needs to contract a bank loan of USD 480,000 for one day. CDG will use the cash to make a contribution in cash into Koilada Invest SRL.

Further to this operation, Koilada Invest SRL will use the cash to reimburse the loan received from CDG of USD 480,000, the difference of USD 91,200 of the loan being reimbursed when the tax authorities will refund the VAT to Koilada Invest SRL.

CDG will use the cash received from Koilada to reimburse the one-day loan contracted.

Dr	Cash	USD 480,000
	Cr	Bank loan (one-day)
		USD 480,000

Being short-term bank loan registered in CDG

Dr	Shares in Koilada Invest SRL	USD 480,000
	Cr	Cash
		USD 480,000

Being contribution in cash in Koilada Invest SRL registered in CDG

Dr	CDG loan	USD 480,000
	Cr	Cash
		USD 480,000

Being repayment of the loan registered in Koilada Invest SRL

Dr	Bank loan (one-day)	USD 480,000
	Cr	Cash
		USD 480,000

Being repayment of the short-term bank loan registered in CDG

4.7. Koilada LLC will buy from CDG 50% of the shares in Koilada Invest SRL



Koilada LLC will buy 50% of the shares issued by Koilada Invest SRL for the amount of USD 740,000, which will be paid in 5 years. The security for the price payment shall be a pledge on the shares owned by Koilada LLC and a mortgage on a land that needs to be decided.

Dr	Shares in Koilada Invest SRL	USD 740,000
	Cr	Payable to CDG
		USD 740,000

Being the purchase of shares registered in Koilada LLC

Dr	Receivable from Koilada LLC	USD 740,000
	Cr	Shares in Koilada Invest SRL
		USD 740,000

Being the sale of shares registered in CDG.

 
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Draft – for discussion purposes – 17 November 2003

If the VAT of USD 91,200 will not be reimbursed by the Romanian tax authorities to Koilada Invest SRL in due time, the remaining liability which CDG has to Koilada LLC of USD 45,600 can be offset with the receivable which CDG has from Koilada LLC.

Thus, further to this step, CDG will remain with a receivable from Koilada LLC of USD 694,400. At a later stage, when the VAT of USD 91,200 will be reimbursed, CDG will use the cash to pay the Avrig loan (which in turn will reimburse the amount of HVB).

4.8. CDG and Koilada Invest SRL merge (in the future)

A merger between Koilada Invest SRL and CDG could generate tax benefits.

Conclusion further to steps 1,2,3 & 4:

- Avrig remains with a liability of USD 2,291,200 to HVB
- Avalon remains with a liability of USD 285,600 to Avrig
- CDG remains with a liability of USD 2,005,600 to Avrig
- Further to the purchase option, Koilada LLC will remain with a liability of USD 694,400 to CDG.
- The Romanian state should reimburse VAT of USD 91,200 to Koilada Invest SRL, which will reimburse the amount to CDG.
- In Avalon, the input VAT of USD 45,600 will be offset with the output VAT.

- Apromatco remains with cash of USD 480,000 from the sale of land of 37,000 sqm to Koilada Invest SRL and cash of USD 240,000 from the sale of the land of 18,000 sqm to Avalon.
- Koilada LLC remains with cash of USD 1,214,400 from the sale of shares in Koilada Invest SRL to CDG.

  
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