

NG2 SA
59-101 Polkowice, ul. Strefowa 6

Auditor's opinion and report
on the Financial Statements
for the period from January 1 to December 31, 2008

Independent auditor's report for the General Meeting and the Supervisory Board of NG2 SA

We have audited the Financial Statements of **NG2 SA** based in Polkowice, ul. Strefowa 6 which is composed of:

- the Introduction to Financial Statements
- the Balance Sheet prepared as at December 31, 2008 which on the side of assets and liabilities shows the amount of **472,922 thousand zlotys**;
- the Profit and Loss Account for the period from January 1 to December 31, 2008 showing net profit in the amount of **88,072 thousand zlotys**;
- the Statement of Changes in Equity for the period from January 1 to December 31, 2008 showing an increase in equity by the amount of **88,072 thousand zlotys**;
- the Cash Flow Statement showing an increase of the balance of net cash within the period from January 1 to December 31, 2008 by the amount of **4,591 thousand zlotys**;
- the accompanying Notes.

The preparation of the Financial Statements is the responsibility of Company's Management Board.

Our responsibility was to express an opinion, based on our audit, on the fairness, correctness and clarity of the Financial Statements as well as the correctness of accounting books on the basis of which they have been prepared.

We conducted our audit in accordance with the provisions of:

- 1) chapter 7 of the Accountancy Act of September 29, 1994 (Dz. U. [Journal of Laws] No. 76 item 694 of 2002),
- 2) the auditing standards issued by the National Chamber of Statutory Auditors

We planned and performed the audit of the financial statements in such a way as to obtain reasonable assurance which allowed expressing an opinion on the statements.

In particular, the audit included examining the correctness of accounting principles applied by the Company as well as significant estimates, examining – predominantly randomly – accounting records and entries from which figures and information included in the financial statements arise as well as evaluating the overall financial statements presentation.

We believe that our audit has provided a sufficient basis for a reliable opinion.

In our opinion, the financial statements audited, including figures and explanatory notes:

- present fairly and clearly all essential information for the assessment of the financial and asset position of NG2 SA at December 31, 2008 as well as its financial result for the business year from January 1 to December 31, 2008.
- have been prepared correctly in all material aspects, i.e. in compliance with accounting principles arising from International Financial Reporting Standards and connected interpretations announced in form of directives of the European Commission, and within the scope not regulated in the Standards – according to the requirements of the

Accountancy Act and the implementing regulations issued on its basis as well as based on properly kept accounting books,

- comply with the legal regulations and the provision of the Company's Articles of Association influencing the content of the financial statements.

The Management Report is complete in terms of article 49 par. 2 of the Accountancy Act and takes into consideration the provisions of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information delivered by the issuers of securities and the conditions for recognition as equivalent of information required by legal regulations of a non-member state, and the information contained therein, originating from the financial statements audited, is consistent with them.

Katowice, April 28, 2009

**BDO Numerica
International Auditors & Consultants Sp. z o.o.
ul. Postępu 12
02-676 Warsaw
Identification no. 3355**

**The person performing the audit and acting
on behalf of BDO Numerica
International Auditors & Consultants Sp. z o.o.**
Leszek Kramarczuk
Member of the Management Board
Certified Auditor
Id. No. 1920/289

NG2 SA
59-101 Polkowice, ul. Strefowa 6

Supplementary report to the auditor's opinion
on the Financial Statements
for the period from January 1 to December 31, 2008

TABLE OF CONTENTS

I. GENERAL PART OF THE REPORT	2
II. FINANCIAL ANALYSIS OF THE COMPANY	6
III. DETAILED PART OF THE REPORT	10

I. GENERAL PART OF THE REPORT

1. Identifying data of the Company

1.1 Name and legal form

The business name of the company is: NG2 Spółka Akcyjna

1.2 Registered office of the Company

59-101 Polkowice, ul. Strefowa 6.

1.3 Objects of the Company

In the period audited, the Company was primarily concerned with shoes wholesale and retail trade.

1.4 Basis of operation

The Company operates on the basis of:

- the Articles of Association of the Company drawn up in form of a notarial deed on June 15, 2004 (Notarial Register A No. 3540/2004) as amended, and
- the Code of Commercial Partnerships and Companies.

1.5 Registration with the Commercial Court

On June 30, 2004, the Company was entered into the National Court Register at the District Court in Wrocław – 9th Commercial Division of the National Court Register under the number KRS 0000211692.

1.6 Registration with the Tax Office and the Regional Statistical Office

Tax ID	692-22-00-609
EU VAT ID	PL6922200609
REGON (statistical number)	390716905

1.7 Capital stock and equity capital

The capital stock of the Company at December 31, 2008 amounted to 3,840 thousand zlotys and was divided into 38,400 stocks of the face value of 0.10 zlotys each, from which 6,700 thousand stocks of A1 series are preferred stock, which means that to each stock are allocated two votes at the General Meeting. The amount of capital stock has not changed in the audited period.

Stockholders of the Company holding more than 5% of stocks at December 31, 2008 were:

- Dariusz Miłek	- 21,470,330 stocks
	- 55.9% of the capital
	- 58.1% of votes at the GM

- | | | |
|--|---|--------------------------|
| - Leszek Gaczorek | - | 4,600,000 stocks |
| | - | 12.0% of the capital |
| | - | 14.1% of votes at the GM |
|
 | | |
| - ING Towarzystwo Funduszy Inwestycyjnych SA | - | 2,471,833 stocks |
| | - | 6.4% of the capital |
| | - | 5.5% of votes at the GM |

Besides, the equity capital includes: a surplus from the sale of shares over their face value (74,586 thousand zlotys), other supplementary capital (95,584 thousand zlotys), retained loss (5,538 thousand zlotys) and net profit for the year 2008 (88,072 thousand zlotys).

In the period audited, other supplementary capital increased by 42,855.7 thousand zlotys as a result of the distribution of profit for the year 2007.

In connection with the disclosure in the audited period of errors relating to the previous year, the Company corrected its Financial Statements for the previous year according to the requirements of IAS 8 "Accounting principles (policy), changes in estimates and correction of errors". The effect of the correction of the Profit and Loss Account for the year 2007 was an adjustment of the net profit by 5,813 thousand zlotys which was entered in the equity capital as at December 31, 2008 as retained loss. The loss was adjusted by the results of fixed assets valuation (276 thousand zlotys) which was carried out when the Company changed to IFRS; previously, the results had been shown in the revaluation capital.

The equity capital of the Company at December 31, 2008 amounted to 256,544 thousand zlotys, which meant an increase by 88,072 thousand zlotys as compared with the balance at December 31, 2007.

1.8 Management Board of the Company

In 2008, the composition of the Management Board was as follows:

- | | |
|------------------|--|
| - Dariusz Miłek | - President of the Management Board |
| - Lech Chudy | - Vice President of the Management Board |
| - Mariusz Gnych | - Vice President of the Management Board |
| - Piotr Nowjalis | - Vice President of the Management Board (since December 16, 2008) |
| - Teresa Ziola | - Vice President of the Management Board (until April 21, 2008) |

The composition of the Management Board has not changed by the end of the audit of financial statements.

1.9 Employment

Average employment in 2008 was 2,959 permanent posts.

1.10 Information about affiliates

Affiliates of NG2 SA are CCC Factory Sp. z o.o., CCC Boty Czech s.r.o. and Kontynentalny Fundusz Powierniczy No. 968 in which the Company is the only shareholder.

2. Identifying data of the Financial Statements audited

Subject-matter of the audit was the Financial Statements prepared for the period from January 1, 2008 to December 31, 2008, including:

- the Introduction to Financial Statements
- the Balance Sheet prepared as at December 31, 2008 which on the side of assets and liabilities shows the amount of 472,922 thousand zlotys;
- the Profit and Loss Account for the period from January 1, 2008 to December 31, 2008 showing net profit in the amount of 88,072 thousand zlotys;
- the Statement of Changes in Equity for the period from January 1, 2008 to December 31, 2008 showing an increase in equity by the amount of 88,072 thousand zlotys;
- the Cash Flow Statement showing an increase of the balance of net cash within the period from January 1, 2008 to December 31, 2008 by the amount of 4,591 thousand zlotys;
- the accompanying Notes, and the Management Report.

3. Identifying data of the authorized entity and the certified auditor performing the audit

The audit of the Financial Statements of NG2 SA for the year 2008 was performed by BDO Numerica International Auditors & Consultants Sp. z o.o. based in Warsaw, entered into the list of entities authorized to auditing kept by the National Chamber of Statutory Auditors under no. 3355, according to the choice made by the Supervisory Board of the audited Company as well as to the provisions of the Audit Contract of May 19, 2008. The authorized entity was represented in performance of the subject matter of the abovementioned contract by the certified auditor Leszek Kramarczuk (identification no. 1920/289).

The audit was carried out at the registered office of the Company between 6 and 10 of April 2009. It was preceded by a pre-audit between 4 and 7 of November 2008 and a review of the financial statements for the 1st half-year of 2008.

We declare that the authorized entity BDO Numerica International Auditors & Consultants Sp. z o.o. and the certified auditor who examined the abovementioned Financial Statements meet the conditions required to express an impartial and independent opinion on the audited statements according to article 66 par. 2 of the Accountancy Act.

In the course of auditing, no limitations of its scope occurred. During the audit, the Company made available to the auditor the required data and provided information as well as explanations necessary for the performance of the audit, and informed about significant events that took place after the balance sheet date till the day on which the statement was made.

The audit was performed on the assumption that the business activity of the Company will be continued in foreseeable future.

In the course of auditing, no events or circumstances pointing to a violation of this assumption have been found.

4. Information about the financial statements for the preceding year

A basis for the opening of accounting books were the financial statements prepared for the year 2007 which had been audited by BDO Numerica SA. The opinion on these statements was without reservations.

The Financial Statements of the Company for 2007 were approved by the resolution no. 3/ZWZA/2008 of the General Meeting of June 3, 2008. Pursuant to the resolution no. 5/ZWZA/2008, net profit in the amount of 42,855.7 thousand zlotys was apportioned to supplementary capital.

The Financial Statements for 2007 have been submitted on June 13, 2008 to the competent tax office and to the National Court Register.

The Financial Statements for 2007 were published in Monitor Polski "B", no. 1777, item 10084 of November 20, 2008.

II. FINANCIAL ANALYSIS OF THE COMPANY

Selected items from the Balance Sheet and the Profit and Loss Account as well as the major financial ratios are shown below.

1. Balance Sheet

ASSETS

(in thousand zlotys)

	31.12.08	% of the balance sheet total	31.12.07	% of the balance sheet total	31.12.06	% of the balance sheet total
Fixed assets	156,866	33.1	106,842	36.3	69,328	31.3
Intangible assets	1,1100	0.2	261	0.1	184	0.1
Tangible fixed assets	117,459	24.8	74,437	25.3	52,269	23.5
Long-term investments	34,427	7.3	29,498	10.0	15,064	6.8
Long-term receivables	233	0.0	293	0.1	353	0.2
Deferred income tax assets	3,637	0.8	2,354	0.8	1,458	0.7
Current assets	316,056	66.9	187,944	63.7	153,134	68.7
Inventories	197,744	41.8	91,366	31.0	60,635	27.2
Short-term receivables	109,996	23.3	92,854	31.4	83,136	37.3
Derivative assets	0	0.0	0	0.0	2,511	1.1
Short-term investments	8,316	1.8	3,724	1.3	6,852	3.1
TOTAL ASSETS	472,922	100.0	294,786	100.0	222,462	100.0
EQUITY AND LIABILITIES						
Equity	256,544	54.3	168,472	57.1	169,830	76.3
Stock capital	3,840	0.8	3,840	1.3	3,840	1.7
Surplus from stocks sale over their face value	74,586	15.8	74,586	25.2	74,586	33.5
Other supplementary capital	95,584	20.2	52,728	17.9	42,044	18.9
Retained profit (loss)	(5,538)	(1.2)	276	0.1	276	0.1
Net profit (loss)	88,072	18.7	37,042	12.6	49,084	22.1
Long-term liabilities and provisions	14,217	2.9	1,599	0.6	1,391	0.6
Long-term loans and bank credits	12,500	2.6	0	0.0	0	0.0
Deferred income tax provision	683	0.1	876	0.3	739	0.3
Long-term provisions	868	0.2	510	0.2	421	0.2
Long-term liabilities	166	0.0	213	0.1	231	0.1
Short-term liabilities and provisions	202,161	42.8	124,714	42.3	51,241	23.1
Short-term liabilities	180,373	38.2	118,510	40.1	42,169	19.0
Income tax liabilities	10,904	2.3	1,932	0.7	8,325	3.8
Derivative financial instruments		0.0	2,866	1.0	0	0.0
Short-term provisions	10,884	2.3	4,406	0.5	747	0.3
TOTAL EQUITY AND LIABILITIES	472,922	100.0	294,786	100.0	222,462	100.0

The balance sheet total at December 31, 2008 has increased by 60.4% as compared with the balance at December 31, 2007. The share of individual balance sheet items in the balance sheet total has not changed significantly in relation to the previous year.

The most significant balance sheet item on the side of assets at December 31, 2008 was the inventories whose value increased more than twofold as compared with the preceding period. Such a significant growth is a result of an increase of the number of retail shops of the Company in 2008 and planned development of the retail network in 2009. An important factor which also influenced the value of inventories was the US dollar exchange rate in the audited period as the US dollar is the main accounting currency for settlements with foreign suppliers. The increase in value of tangible fixed assets results from the development of the retailing network in 2008 as well as its planned development in 2009, and consequent expenditure for investments in fixed assets under construction.

In the period audited, the equity capital grew by 52.3% in comparison to the preceding period; at the same time, the share of equity capital in equity and liabilities decreased from 57.1% at December 31 2007 to 54.3% at the end of 2008. In the year audited, short-term liabilities increased by 52.2% in relation to the preceding period, which was caused mainly by the increase in trade liabilities resulting from the current operation of the Company.

2. Profit and Loss Account

(in thousand zlotys)

Itemization	2008		2007		2006	
	in K zlotys	% of revenue	in K zlotys	% of revenue	in K zlotys	% of revenue
Sales revenue	748,113	100.0	530,645	100.0	392,985	100.0
Operating expenses	629,999	84.2	459,476	86.6	335,732	85.4
Profit on sales	118,114	15.8	71,169	13.4	57,252	14.6
Balance of other operating revenue and expenses	871	0.1	(17,084)	(3.2)	(27)	0.0
Balance of financial revenue and expenses	(9,685)	(1.3)	(5,354)	(1.0)	3,271	0.8
Income tax	21,229	2.8	11,689	2.2	11,412	2.9
Net result	88,072	11.8	37,042	7.0	49,084	12.5

In the year audited, the sales revenue grew by 41% in relation to the preceding period; at the same time, operating expenses grew by 37.1%. A faster increase in revenue than the increase in expenses caused that the profit on sales generated by the Company in 2008 was as much as 66% higher than the profit generated in 2007.

In the year audited, the balance of other operating revenue and expenses was a positive value, while the Company had suffered a high operating loss in the preceding year.

A negative result in financial operations, worse than in the preceding period, was caused primarily by the increase in external financing costs.

In 2008, the income tax burden increased considerably.

Ultimately, the net profit produced by the Company in 2008 was by 137.8% higher than the profit generated in 2007.

3. Major financial ratios

	2008	2007	2006
Return on assets			
<u>Net income</u> Total assets	18.6%	12.6%	22.1%
Return on equity			
<u>Net income</u> Equity	34.3%	22.0%	28.9%
Return on sales			
<u>Net income</u> Product sales revenue	11.8%	7.0%	12.5%
Gross margin			
<u>Sales income</u> Product and goods sales revenue	15.8%	13.4%	14.6%
Current ratio			
<u>Total current assets</u> Short-term liabilities	1.65	1.56	3.03
Quick ratio			
<u>Total current assets - inventories</u> Short-term liabilities	0.62	0.80	1.83
Receivables payment period in days			
<u>Average balance of trade receivables x 365 days</u> Product sales revenue	47	57	47
Liabilities payment period in days			
<u>Average balance of trade liabilities x 365 days</u> Operating, sales and general management expenses	27	15	17
Inventory turnover ratio in days			
<u>Average inventory balance x 365 days</u> Costs of goods sold	140	99	113
Debt ratio			
<u>Total liabilities – provisions</u> Balance sheet total	0.4	0.4	0.2
Book value per share (in zlotys)			
<u>Equity capital</u> Number of shares	6.7	4.4	4.4
Profit per share			
<u>Net profit</u> Number of shares	2.3	1.0	1.3

4. Interpretation of ratios and general economic situation

An increase of net profit and sales income in 2008, as compared with 2007, resulted in an improvement of all profitability ratios.

In the year audited, the current ratio improved slightly and was on a level which is regarded as optimal, and the quick ratio changed for the worse and its level was lower than the optimal level.

Liabilities and inventory turnover periods extended in relation to the preceding year, and the receivables payment period shortened. It should be mentioned that in the audited period the receivables payment cycle was by 20 days longer than the liabilities payment period.

In the year audited, the debt ratio remained at the similar level as in the preceding year.

The results obtained as well as the general financial condition of the Company do not indicate any threat to the continuation of business activity.

III. DETAILED PART OF THE REPORT

1. Evaluation of the accounting system and the internal control

1.1 The accounting system

A basis for the opening of accounting books of the Company at January 1, 2008 were the Financial Statements including the Balance Sheet prepared at December 31, 2007.

The Company is in possession of the documentation defined in article 10 of the Accountancy Act in which the accounting principles adopted by it are specified. Applied principles of cost accounting, assets and liabilities valuation and ascertainment of financial result comply with the International Accountancy Standards and the provisions of the Accountancy Act.

The accounting records are computer stored by use of the Quattro System.

The data and its processing system can be accessed by authorized persons only.

The documentation of business processes is complete and transparent. The accounting documents meet the requirements of the Accountancy Act.

The accounting records kept allow ascertaining the financial result, the VAT and other regulatory liabilities. The accounting records ensure the correctness and completeness of the entries.

The sequence of business transactions is observed.

The accounting books together with the documentation constituting the basis for the entries may be deemed proper in terms of article 24 of the Accountancy Act.

The entries in accounting books reflect the actual situation; the data is entered completely and correctly on the basis of accounting documents qualified for booking. The continuity of entries and the correctness of procedures applied are ensured.

The accounting books audited as well as accounting documents constituting the basis for the entries comply with the requirements of fairness and verifiability.

1.2 Taking of an inventory of asset components

Cash assets placed in a safe located at the registered office of the Company were counted by way of physical inventory as per balance at December 31, 2008. In the business year audited, cash assets in tills of the Company's shops were inventoried in a continuous system. The reliability of cash at bank balances was confirmed as at December 31, 2008 by way of confirmations obtained from the banks.

The physical inventory of fixed assets was taken as per balance at December 31, 2008.

The stock was taken by way of physical inventory, respectively:

- in case of the warehouses in Kały Wrocławskie, Sobin, Chrótnik and Polkowice (warehouse 1) as per balance at December 13, 2008,

- in case of the warehouse in Polkowice (warehouse 2) as per balance at January 9, 2009.

The trade receivables were inventoried as per balance at October 31, 2008, and the receivables and liabilities to affiliates as at December 31, 2008 by way of balance confirmation.

The timeliness and frequency of inventorying assets and liabilities components was observed.

1.3 Internal control

Company's Management Board is responsible for working out and functioning of the Company's internal control system as well as for the prevention and detection of irregularities.

When planning and performing the audit of the Company's Financial Statements for the period ended on December 31, 2008, we took into consideration the internal control system procedures in such scope in which it was required in order to define our procedures necessary to issue a reliable opinion on the Financial Statements audited. It is possible that our review of the internal control system did not reveal all significant weaknesses in the structure of the system.

2. Introduction to the Financial Statements and Notes

The Introduction to the Financial Statements and accompanying Notes are complete and correct.

3. Statement of Changes in Equity

The data shown on the Statement of Changes in Equity was correctly connected with the Balance Sheet and the accounting books, and provides a fair and clear view of the changes in Company's capitals.

4. Cash Flow Statement

The Cash Flow Statement was prepared using the indirect method. The data shown on the Cash Flow Statement was correctly connected with the Balance Sheet, the Profit and Loss Account as well as the accounting books, and it provides a fair and clear view of the Company's sources of financing.

5. Information about substantial infringements of the law and the Company's Articles of Association discovered during the audit which influence the Financial Statements

In the Company was not discovered any substantial infringement of the law or the Company's Articles of Association which would influence the content of the Financial Statements audited.

6. The Management Report

The information provided in the report on Company's activity prepared by the Management Board corresponds with the information included in the annual Financial Statements, is

complete in terms of article 49 par. 2 of the Accountancy Act and takes into consideration the provisions of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information delivered by the issuers of securities and the conditions for recognition as equivalent of information required by legal regulations of a non-member state.

7. Statement of the Management of the entity

The Management of the Company issued a statement in writing concerning complete recording of data in the accounting books, showing of all conditional liabilities as well as significant events which took place after the balance sheet date.

Katowice, April 28, 2009

**BDO Numerica
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ul. Postępu 12
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**The person performing the audit and acting
on behalf of BDO Numerica
International Auditors & Consultants Sp. z o.o.
Leszek Kramarczuk
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