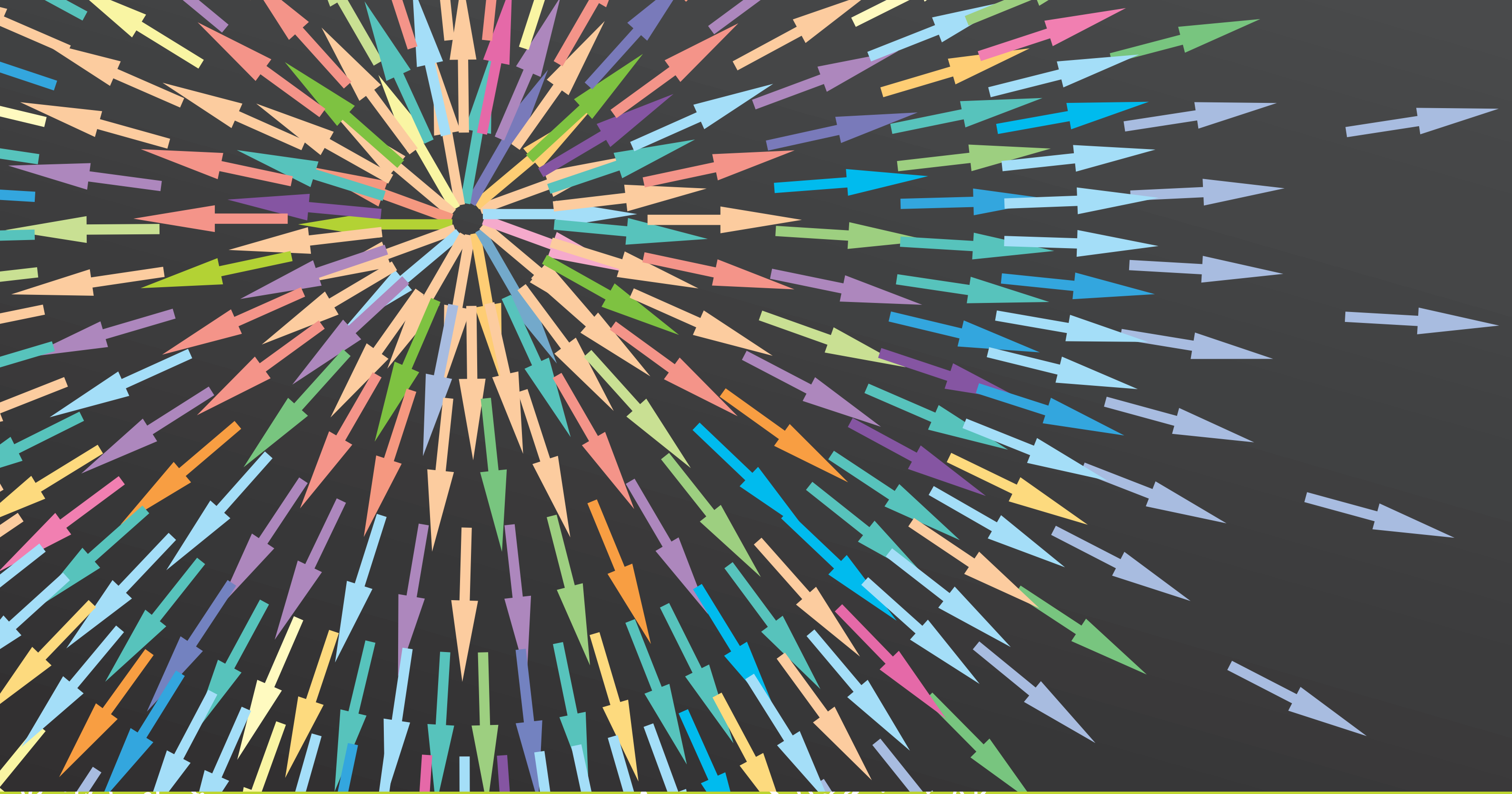
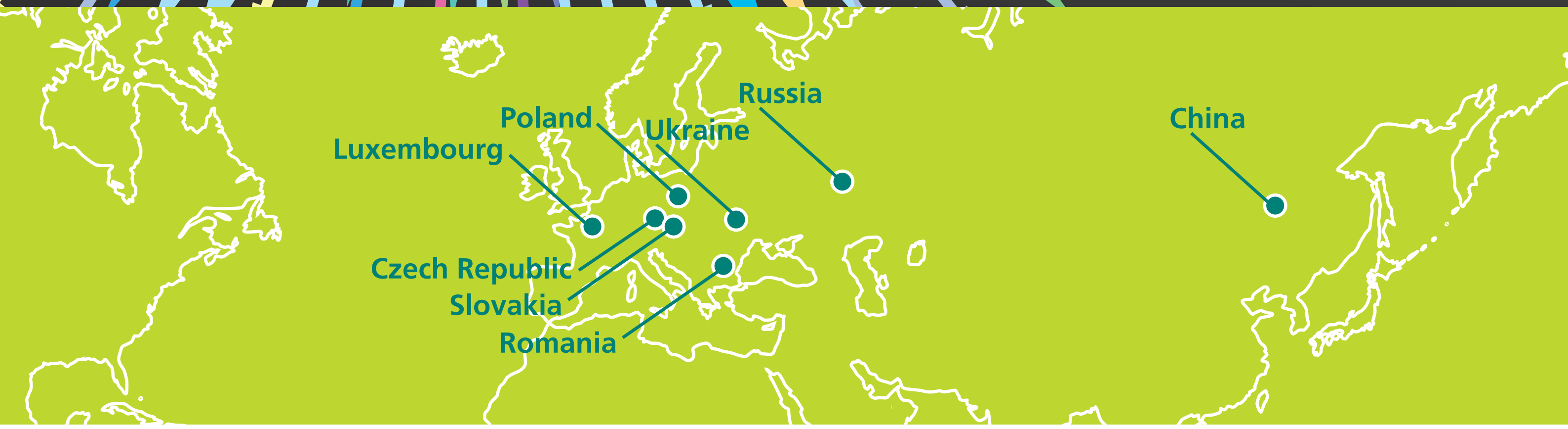
ANNUAL REPORT 2007

ECM

From a local developer to an international player





If you want to change things
you need to change yourself.

Howard Hendricks

Content

Is there anything more beautiful than doing something
you enjoy and knowing that it has a purpose?
Katherine Graham

4 Introduction

Annual report of the Board of Directors

ECM REAL ESTATE INVESTMENTS A.G.

Société anonyme
Registered office: 9, Rue du Laboratoire, L-1911 Luxembourg
RCS Luxembourg: B-65.153
(further also the "Company")

Dear Shareholders,

In order to comply with legal and statutory provisions and in order to report on all important events and activities of ECM REAL ESTATE INVESTMENTS A.G. and its subsidiaries,

the Board of Directors hereby reports to all who might be concerned, and especially to our shareholders in connection with the Annual General Meeting held on 29 April 2008:

- on the statutory accounts of the Company; and
- on the consolidated accounts of the Company;

for the financial year ending 31 December 2007, so as to provide an overview of all important events and activities of ECM REAL ESTATE INVESTMENTS A.G. and its subsidiaries (further referred to also as the "Group") during such financial period, to provide an outlook for future development as well as a summary of important events that have occurred since the end of the financial year.

Report on the Annual Accounts of the Company

Since the Company is a holding company of numerous project companies, the statutory stand-alone annual accounts of the Company do not fully reflect all significant positions and do not provide a full overview of the position of the Company. A more precise overview of the Company can be found in the consolidated accounts for which reason we cross-refer to the report on the consolidated annual accounts and attach the consolidated financial statements in accordance with IFRS to this report.

We consider the year 2007 as a successful year for the whole Group, despite the Company itself closing the financial year 2007 with a loss in a total amount of EUR 68,380,591.75. In addition to the costs incurred in the normal course of business, the main factors affecting the Company's performance in 2007 were the EUR 27.5 million cancellation fee relating to the cancelled future share purchase agreement on the sale of the CITY TOWER, EUR 34.5 million cost related to the buy-back and subsequent cancellation of 948,408 Warrants 2006, and interest expenses related to the bonds issued by the Company.

We propose to the Annual General Meeting of shareholders to carry the loss forward and not to distribute any dividends. We further propose to the Annual General Meeting of shareholders to approve the annual accounts as at 31st December 2007 and to approve the proposed allocation of the loss.

We further propose Deloitte S.A., an independent auditor (réviseur d'entreprices), having its registered office at 560 rue de Neudorf, L-2200 Luxembourg, to be appointed as auditor for a period ending immediately after the Annual General Meeting of shareholders to be held in 2009, to audit both the statutory and consolidated accounts of the Company.

We further propose Mr. Milan Janku and Mr. Tomas Lastovka to be re-elected as the executive directors of the Company for a period ending immediately after the Annual General Meeting of shareholders to be held in 2010.

We also kindly request our shareholders to grant the full discharge to the members of the Board of Directors and to the auditors (réviseur d'enterprices) for the exercise of their mandate until 31st December 2007.

We further kindly request our shareholders to approve remuneration of the directors received for their performance as the members of the Board of Directors and Executive Management Council during the year 2007 in the total amount of EUR 1,188,160 and during the period from January 2008 till April 2008 in the total amount of EUR 267,520. The members of the Board of Directors received additional remuneration paid from Company's subsidiaries in the total amount of CZK 1,372 thousand.

We also kindly request our shareholders to approve future remuneration scheme of the directors paid by the Company for the period from the Annual General Meeting of shareholders to be held on 29th April 2008 to the date of the Annual General Meeting of shareholders to be held in 2009 in the total amount of EUR 2,509,000.

We propose Mr. Josef Franz Homola to be appointed as an independent non-executive member of the Board of Directors for a period ending at the Annual General Meeting of the shareholders to be held in 2011.

As at the date of the Annual General Meeting, the issued capital of the Company amounts to EUR 7,229,250, being divided into 4,252,500 shares in nominal value of EUR 1.7 each; and the authorised capital of the Company amounts to EUR 23,000,000 being divided into 14,000,000 shares in nominal value of EUR 1,7 each.

The shares are freely transferable. Each share entitles its holder to one vote and there are no securities with special control rights. There are no restrictions on voting rights, such as (i) limitations of the voting rights of holder, (ii) system of separation of financial rights attached to securities from the holding of securities and (iii) system of control of any employee share scheme. There are no agreements between shareholders which are known to the Company and may result in restrictions on the transfer of securities.

The main shareholder of the Company, ECM Group N.V., registered office at Naritaweg 165, 1043BW Amsterdam, held 1,275,986 shares which represented a 30% share in the voting rights of the Company as of 19th March 2008. ECM Group N.V. controlled a total of 1,588,278 shares which represented a 37.4% share in voting rights of the Company as of 19th March 2008.

The appointment of the members of the Board of Directors and their replacement is described in the Rules governing the Board of Directors and in the Articles of Association of the Company which were lastly amended on 27th December 2007; the respective wording is as follows:
The members of the Board of Directors will be elected by the general meeting of shareholders, who will determine their capacity of "executive" or "non-executive" member, their number, for a period not exceeding four years. Half of the members of the Board of Directors will be renewed every two years, of which one at least must be an executive member and one at least must be a non-executive member. The duration of any mandates shall be such to allow for this rotation in the renewal of the directors positions. The members of the Board of Directors are re eligible and they may be removed at any time, with or without cause, by a resolution adopted by the general meeting of shareholders.

As disclosed in the IPO Prospectus, the Company committed itself to paying fixed remuneration to any member of the Board of Directors or any member of the Executive Management Council also after the termination of their mandate in case that his or her mandate is terminated and the Company will request the particular member to comply with the non-competition clause stipulated in his or her mandate agreement.

In the non-competition clause each member of the Board of Directors and Executive Management Council covenants and agrees that for a period of one year after termination of his office he or she will not, either directly or indirectly, as owner, employee, partner, investor, shareholder (other than solely as a holder of not more than 5% of the issued and outstanding shares of any public corporation), consultant, advisor or otherwise, howsoever engaged in the operation of, having financial interest in or providing, directly or indirectly, financial assistance to or lend money to or guarantee the debts or obligations of any business operation engaged in any business that is competitive with or identical to the business conducted by the Company or any of its subsidiaries or affiliates. In case that the office of the member is terminated due to his fraudulent activity or any other intentional activity against the Company's interests, the member is obliged to comply with the restrictions in the previous sentence without the claim for remuneration. For the purpose of this non-competition clause any business is considered to be competitive only in the case that it is a real-estate development related activity with a total investment by the member amounting to at least EUR 3,000,000.

The power of the Board of Directors to issue shares is governed by the Articles of Association; the respective wording is as follows:

The Board of Directors is authorized and empowered within the limits of the authorized capital to (i) realise any increase of the corporate capital in one or several successive tranches, following, as the case may be, the exercise of the subscription and/or conversion rights granted by the Board of Directors within the limits of the authorized capital under the terms and conditions of warrants (which may be separate or attached to shares, bonds, notes or similar instruments), convertible bonds, notes or similar instruments issued from time to time by the Company, by the issuing of new shares, with or without share premium, against payment in cash or in kind, by conversion of claims on the Company or in any other manner; (ii) determine the place and date of the issue or the successive issues, the issue price, the terms and conditions of the subscription of and paying up on the new shares; and (iii) remove or limit the preferential subscription right of the then existing shareholders of the Company in case of issue under the authorized capital of either (a) any shares to be delivered by the Company pursuant to the one million seven hundred twenty eight thousand one hundred and eighty (1,728,180) warrants issued by the Company on 31 July 2006 and 10 August 2006, (b) up to one hundred eighteen thousand two hundred and sixty three (118,263) shares to be delivered by the Company as a result of the allocation of any options to the management of the Company and its Group under any management option program as from time to time in effect, and (c) up to one million five hundred thousand shares (1,500,000) shares under an equity-step-up-program, with a maximum duration of 4 years, with Bank Austria Creditanstalt AG, (d) any shares against payment in cash provided the newly issued shares will represent at most 5% of the issued capital at the time of issue in one calendar year and no more than 7.5% of the issued capital over a period of three consecutive years, or (e) any shares to be delivered by the Company pursuant to the issuance of up to 2,500,000 warrants to be issued by the Company. This authorisation is valid during a period ending on 24 April 2012 and it may be renewed by a resolution of the general meeting of shareholders adopted in compliance with the quorum and majority rules set by the Articles of Association or, as the case may be, by the Laws for any amendment of the Articles of Association.

The change of the appropriate article of the Articles of Association is being prepared and shall be resolved separately on the Extraordinary General Meeting of shareholders to be held on 29th April 2008.

During the last year the Company started to utilise the equity-step-up-program arranged through Bank Austria Creditanstalt AG and issued 70,000 new shares on 9th August 2007, 180,000 new shares on 14th October 2007 and 140,000 new shares on 27th December 2007. The Company has extended the possibility of issuing new shares under the equity-step--up-program to 400,000 shares during any consecutive three months. Accordingly, the Articles of Association of the Company has been amended to reflect the change of the amount of the issued capital.

The Company is not a party of any significant agreement which takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effects thereof.

Luxembourg, 10th April 2008
The Board of Directors

8 Management Report on Consolidated Annual Accounts

2007 Highlights

- **23** projects with nearly **500,000 sq m** in development and investment portfolio and EUR **1.3 billion** of OMV
- Entered **2** new markets in 2007, now active in **4** countries
- **5** projects acquired, **4** projects completed and **3** projects sold during the year
- **25%** Y-o-Y growth in NAV to EUR **244 million**
- **69%** Y-o-Y growth in assets to EUR **563 million**
- **215%** Y-o-Y growth in EBIT to EUR **30 million**
- Issued EUR **94.5 million** in Bonds with warrants and CZK **1 billion** in senior unsecured bonds

Letter from the CEO

Following on from our successful launch on the Prague Stock Exchange at the end of 2006, we expected that 2007 would clearly be the most important in the history of ECM, and that is exactly how it turned out.

For me personally, 2007 was the culmination of more than fifteen years of work towards turning a successful local real estate company into a publicly listed and internationally renowned investor, and this report shows that we have really achieved this desired end result.

I have always believed that to maintain our strong growth and to continue to be successful, we need to aim high and, occasionally, be prepared to be the front runners, whether by diversifying into different business lines or looking at new and, as yet, unexplored regions. Investments made during the last year, and projects successfully completed, have clearly demonstrated our ability to take on and succeed with the biggest and most demanding of projects, as well as our willingness to venture into new territories. The completion of our flagship CITY TOWER office building in Prague, and our two investment projects in China are perfect examples of these strengths.

When we presented our medium-term expansion strategy halfway through 2007, we announced that we were aiming for a further diversification by geography, asset types, and individual projects in order to ensure that the Company was resilient to any potential volatility on the market. Hand in hand with the new strategy, ECM's management has been working hard to develop a new concept for the overall management and organisational structure as well as its system of corporate governance and the implementation and fine tuning of this new structure is one of the important tasks standing before ECM during the first half of 2008.

I strongly believe that our people, our projects and our continued ability to turn these projects into tangible value will see ECM, during the course of the next few years, sitting firmly at the top of the real estate investment tree for Central Europe, particularly in view of the revolutionary changes implemented during 2007 and planned for 2008, despite the prevailing volatility in the global financial and capital markets.

To conclude, on behalf of ECM and on behalf of our shareholders, I would like to extend my sincere thanks to our business partners, financing banks, investors and clients for the contribution they have made to the successful development of ECM's business during the year. Your financial support, experience, and loyalty to ECM are the keys to the success of our business in the future.

I would also like to express my gratitude to our diligent team of employees. The success of our business has been achieved through the contribution of each and every one of them, and it is they who are the driving force of our business.

Milan Janku
President and CEO

> The best idea is the one that always keeps a tiny slot for the possibility that, at the same time, everything is the other way around.
>
> Václav Havel

10 2007 Milestones

1st Quarter

January	Exercise of the over-allotment option for a total of 127,500 shares
January	Signed contract with the Generali insurance company on the forward sale of the CITY ELEMENT office building in Prague
February	Signed contract with TietoEnator on the lease of the Varenska Office Center in Ostrava
March	Exited CITY POINT for a total value of EUR 30.8 million
March	Completed the EUROPORT project in Prague
March	Issuance of senior unsecured bonds in the total amount of CZK 1 billion of which CZK 800 million in bonds was subscribed for

2nd Quarter

April	Reported 199% Y-o-Y increase in total NAV during 2006 to EUR 195 million
April	Obtained construction permit and started construction of Terasy Unhost
May	ECM Prague Open 2007 tennis tournament
May	Reported an impressive 456% Y-o-Y jump in net rental and related income in Q1 2007 to EUR 2.8 million, and 30% Y-o-Y growth in net operating profit before financial income/expense to EUR 5.1 million
June	Signed contract with CA Immo International on the forward sale of the CITY DECO office building in Prague for a total consideration of about EUR 47 million

3rd Quarter

July	Introduced new medium-term expansion strategy until 2011
August	Forward purchase of Globe Plaza retail centre; initial payment of USD 28.5 million
August	Purchased an option to buy 32,000 sq m of land in Pardubice
August	Approved regional expansion strategy for Poland
August	Exited EUROPORT project with a 32% IRR
August	Antonin Jakubse appointed to the Executive Management Council as Vice President for Corporate Affairs
August	Total NAV increased by 14.1% for the six months to 30 June 2007 to EUR 222.7 million
August	70,000 ordinary shares issued under the Equity-Step-Up-Program
September	Obtained all underlying statements for the zoning permit for CITY EPOQUE Hotel and CITY EPOQUE Residence
September	180,000 ordinary shares issued under the Equity-Step-Up-Program
September	Completed Diplomat Center in Pilsen; guaranteed exit in Q1 2008

4th Quarter

October	Forward purchase of Metropolis Tower in Beijing office building; initial payment of USD 13 million
October	Issuance of Bonds with warrants in the total amount of EUR 94.5 million ➔ Gross cash proceeds of EUR 34.4 million ➔ Cancellation of 948,408 warrants 2006 ➔ 779,772 warrants 2006 with strike price EUR 22.22 remain outstanding ➔ Issuance of 1,857,240 warrants 2007 with strike price EUR 71.25
October	Acquisition of East Point Office Park in Moscow
October	Acquisition of zoned residential land in Poznan, Poland
October	Approved regional expansion strategy for Ukraine
November	Buy-back of 50% share of Czech Real Estate Regions joint venture from Citigroup Property Investors for a total consideration of EUR 4.8 million
November	Total assets and total equity increased Y-t-D by 21% and 20%, respectively, to EUR 403.6 million and EUR 141 million, respectively
December	Final building approval for the CITY TOWER in Prague
December	Final building approval for the Varenska Office Center in Ostrava
December	Sold a 40% stake in the two projects in Beijing to Metro Holdings Limited and HSBC NF China Real Estate Fund; the two parties also provide a mezzanine loan for the projects
December	Sale of Letnany Residential project in Prague for a total consideration of EUR 1.7 million, resulting in 22% IRR
December	Acquisition of land for CITY PARKVIEW residential project in Prague
December	Completion of Phase 1 of the Terasy Unhost residential project
December	Acquisition of 50% in Optiservis to further strengthen the facility management business line
December	140,000 ordinary shares issued under the Equity-Step-Up-Program

Key Messages

Vision and Goals

To become a mid-size international developer and significantly increase the market capitalisation of the company's real estate activities by 2011–2012

To build a resilient corporation at the ECM REI A.G. level and within each of its business units

Strategic expansion
- Ongoing strategy to leverage the Company's strong position in core markets
- Further expansion in Russia and the CEE/SEE region, and other emerging markets

Maximum diversification of the ECM portfolio
- Diversification of the activities into office, hotel, retail and residential segments to reduce the risks related to market volatility

Excellent profitability
- Above-average results in the long-term
- Average target IRR of 35% on each project

Focus on the best quality projects
- Location, construction, product and services

Top management with wide-ranging experience
- Managers are experts in their field with extensive experience from abroad

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Outlook and Subsequent Events

Business Outlook for 2008

ECM intends to continue with its ambitious plans, many of which are already under development, including the completion of the CITY TOWER in Prague – the tallest office building in the Czech Republic – as well as Phase 2 of the Terasy Unhost residential project outside Prague.

According to the development timeline, ECM also plans to start its construction of the CITY COURT and CITY ELEMENT office buildings, as well as the CITY DECO mixed use property, in 2008.

The Company expects to purchase the Globe Plaza shopping center in Beijing, China, whose shell and core structure with technical equipment is expected to be completed in Q2 2008. ECM will subsequently initiate works on the fit-out of the project, aiming towards a grand opening in Q1 2009.

In accordance with the pre-sale agreement, ECM plans to conclude the transfer of the completed Diplomat Center in Plzen (hotel/office) to CA Immo International during Q1 2008.

ECM will also continue with the development process for the other projects in its development portfolio during 2008 with the aim of bringing their status forward by obtaining the necessary underlying statements for zoning permits and allowing for subsequent works to obtain the building permits.

ECM will continue with the implementation of its recently introduced new concept for the overall management system, organisational structure and system of corporate governance, all of which have been developed to facilitate the successful implementation of the company's medium-term expansion strategy as introduced in 2007. The transition period for the changes is planned to end with the fully functional and complete structure in place by 1 August 2008, and this will include the hiring of an Executive VP for Finance and non-executive member(s) of the Board of Directors of ECM REI A.G.

As a risk management tool, ECM will also continue to aim for diversification by geography, asset type and single project exposure during 2008.

In line with its planned expansion in 2008, the company is also looking to further strengthen its financial position by using the financial and capital markets, subject to market conditions. It may also work on the disposal of some of its investment and/or development projects in order to release project equity for use in other projects. ECM may also invite strategic and/or financial co-investors into some of its projects, mainly those of larger gross development value.

Subsequent Events – Important Events that have occurred since the End of the Financial Year:

The company is planning the sale of 2P s.r.o. in the first quarter of 2008. Due to the sale, the assets and liabilities of 2P, s.r.o. are reported on the group level as assets and liabilities held for sale.

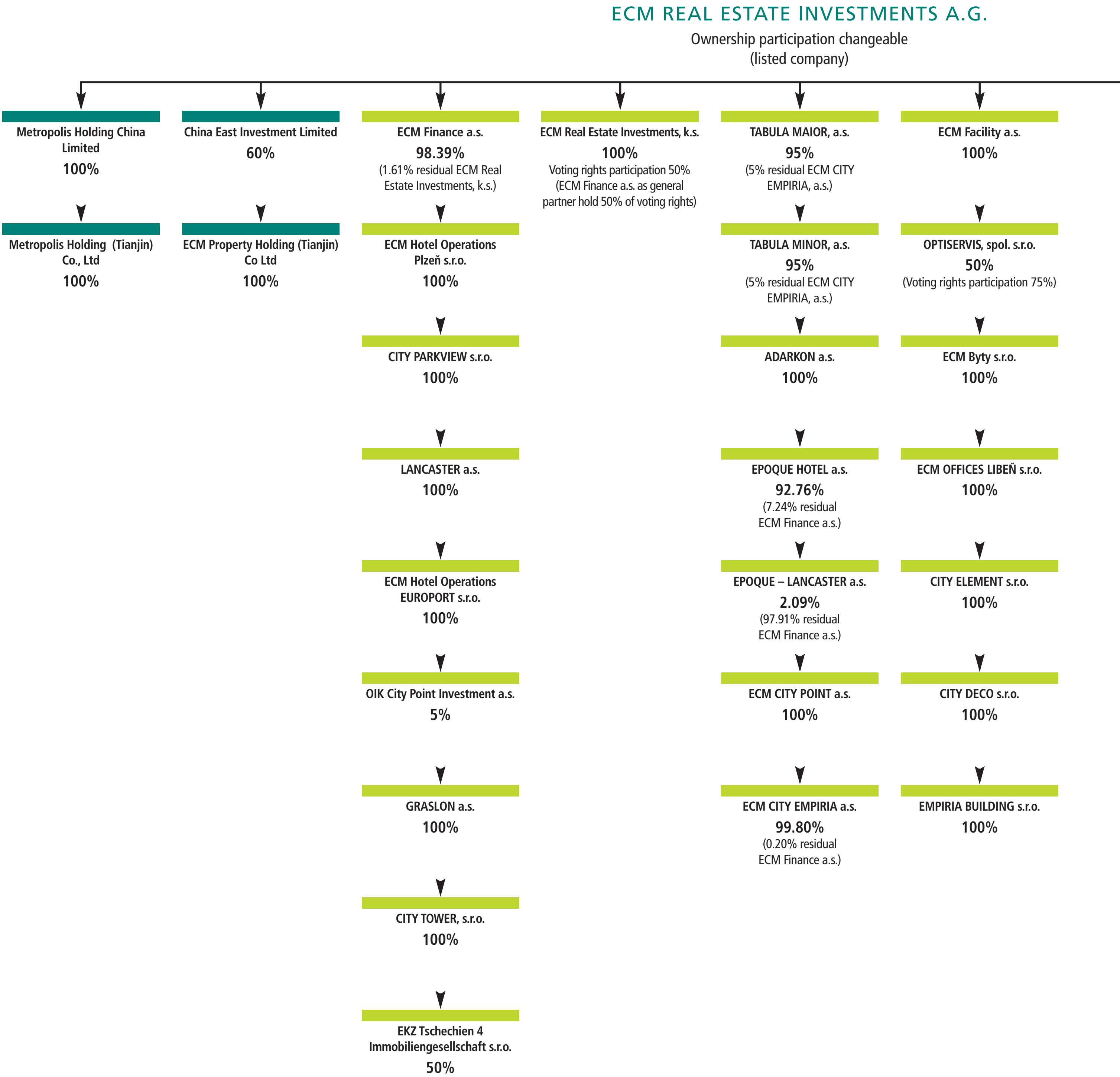
As at 17 January 2008, Yerevan Invest, B.V was established. The sole owner of the company is ECM REAL ESTATE INVESTMENTS A.G.

There are three kinds of values that you need in any job in the world: capital, knowledge and freedom.

Tomáš Baťa

14 Structure of Project Companies

Organigram ECM Group as of 31 December, 2007



- STROMOVKA OBCHODNÍ CENTRUM a.s. 100%
  - SAZERAC a.s. 100%
    - Palisády s.r.o. 100%
      - TORSAR a.s. 100%
        - NATIONAL BUSINESS CENTRE Ostrava a.s. 100%
          - NBC National s.r.o. 100%
            - NBC Office a.s. 10%
- ECM Regions CZ S.a.r.l. 100%
  - Czech Real Estate Regions S.a.r.l. 50% (50% residual ECM REAL ESTATE INVESTMENTS A.G.)
    - 2P, s.r.o. 100%
      - VARENSKÁ OFFICE CENTER, a.s. 100%
        - REZIDENCE UNHOŠŤ a.s. 100%
- ECM Poland A.G. 100%
  - ECM CHINA Bejing S.a.r.l. 100%
    - ECM POZNAŇ RESIDENCE sp. z o.o. 100%
- LUNZIE a.s. 100%
- East Point Holding B.V. 30%
  - OAO Yugo-Vostochnaya promyshlennaya kompanyia "Kartontara" 100%
- ECM Russia A.G. 100%
  - RYAZAN INVESTORS COMPANY LIMITED 100%
    - RYAZAN SHOPPING MALL LIMITED 100%
      - MOLE ONE LIMITED 100%
        - RYAZAN HOLD COMPANY LIMITED 100%
          - OOO "PROSPEKT" 100%

Russia | Cyprus | Netherlands | Luxembourg | Czech Republic | Hong Kong/China | Poland

Note:

Excluding shelf companies without activity

The Company intends to reorganise its holding structure into a business unit model. In this respect, the Company intends to create holding companies in Luxembourg, which would, directly or indirectly, hold SPV companies of projects in (i) the Czech Republic, (ii) Central and Eastern Europe, (iii) Russia and (iv) China.

A percentage represents ownership participation.

In order to reach what is possible, you
need to strive for the impossible.
Ernest Fischer

Executive Management

Milan Janku

President and CEO
Chairman of the Board of Directors

Milan Janku was one of the co-founders of ECM in 1991 and remains one of the majority partners in the ECM Group. Today he is one of the most highly regarded entrepreneurs in the Czech Republic, having taken ECM from its original incorporation in 1991 to its successful listing on the Prague Stock Exchange in 2006.

Under Milan Janku's guidance, ECM has taken part in several important transactions (those with an overall investment value exceeding EUR 150 million), including projects in the Czech Republic, Romania, Russia and China, and today the company is regarded as one of the most successful real estate investors in the region.

Jana Zejdlikova

Vice-President for Finance
Member of the Board of Directors

Jana Zejdlikova joined ECM immediately after graduating from the University of Economics, Prague with a degree in finance in 1992. From 1992 until 1996 she was a member of the Private Equity Team for Central and Eastern Europe, and was involved in the purchase, development and subsequent sale (in some cases) of several of the company's biggest projects, before being promoted to Financial Director and Member of the Supervisory Board of ECM in 1996.

Tomas Lastovka

Vice-President for Development
Member of the Board of Directors

Tomas Lastovka joined ECM in 1999 having previously worked for a number of the Czech Republic's leading real estate developers. Having studied economics and construction management at the Czech Technical University in Prague, he was awarded a special grant to study construction engineering at Iowa State University where he completed one of the highest rated construction engineering programmes in the US. He concluded these studies by graduating from the Executive Development Program of the prestige Kellog School of Management.

Antonin Jakubse

Vice-President for Corporate Affairs

Antonin Jakubse joined ECM in 2007 after holding senior positions in a number of leading Czech companies, including President and Chairman of the Board of Directors of Aero Vodochody a.s. from 2001 until 2005, Chairman of the Board of Directors of Czech Airlines from 1993 until 1999 and Deputy General Manager and Member of the Board of Directors of the Investment and Post Bank, Czech Republic.

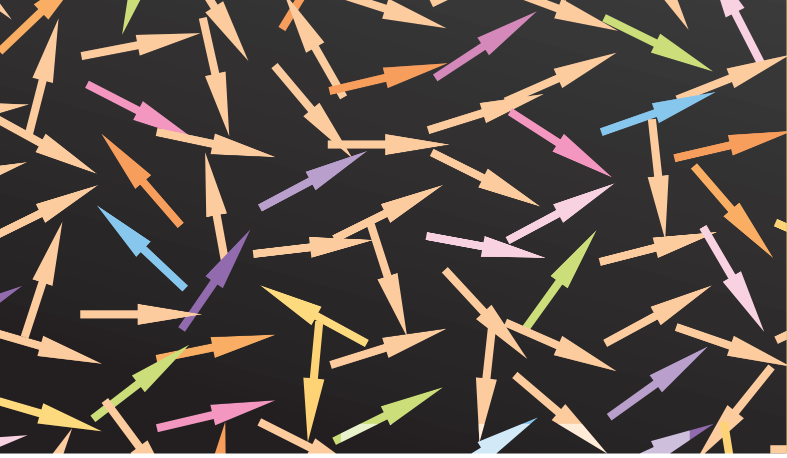
He has also worked as a consultant to a number of banks and investors, including being the co-author of the best project for privatisation in the Czech Republic and working with a number of banks to create a viable financial solution for the Czech Government.

He holds a Master of Science Degree from the University of Economics, Prague, and also completed a course at McGill University, Montreal. He has travelled all over the world and worked in Canada and Luxembourg as well as the Czech Republic.

Patrik Simek

Vice-President for Business Expansion

Patrik Simek joined ECM in 1996 as a member of the Private Equity team whilst completing his studies for a Masters Degree in Law at Charles University in Prague. Between 1998 and 2002 he was involved in several real estate transactions throughout the Czech and Slovak Republics as a legal advisor. He re-joined ECM in 2000 and continued as a member of the Private Equity Team of ECM, before joining the company full-time as Regional Development Director in 2004. He was appointed Vice President for Business Expansion in 2006.



Tomas Vlcek

Vice-President for Sales and Marketing

Tomas Vlcek joined ECM in 2004 as a project manager having previously held senior positions in a number of public companies in the Czech Republic, including Deputy Chairman of the Board at Cardif Pro Vita a.s. (a member of the BNP Paribas Group), Chairman and CEO of ZB Trade a.s. and Managing Partner of the investment firm Gordon International Ltd. He was appointed as ECM's Vice-President for Sales and Marketing in 2006.

Genius is one percent inspiration and ninety-nine percent perspiration.

Thomas Alva Edison

ECM plans to introduce changes to its overall management and organisational structure during 2008.

Within the new organisational structure:

- Milan Janku will continue to be the Company's President
- Jana Zejdlikova will be assigned to manage ECM's activities in the Czech Republic in the role of Executive Vice-President, BU CR
- Tomas Lastovka will be assigned to manage ECM's activities in Russia in the role of Executive Vice-President, BU Russia
- Antonin Jakubse will continue to manage ECM's Corporate Affairs division in the role of Executive Vice-President, Corporate Affairs
- Maros Breda will continue to manage ECM's activities in China in the role of Executive Vice-President, BU China
- Patrik Simek will be assigned to manage ECM's acquisitions in Central and Eastern Europe in the role of Senior Vice-President, Expansion
- Tomas Vlcek will be assigned to manage the newly established "Excellence Center" in the role of Senior Vice-President, Excellence Center
- Jan Soukup will continue to manage ECM's facility management activities in the role of Senior Vice-President, ECM Facility
- The appointment of an Executive Vice-President Finance is expected during 2008

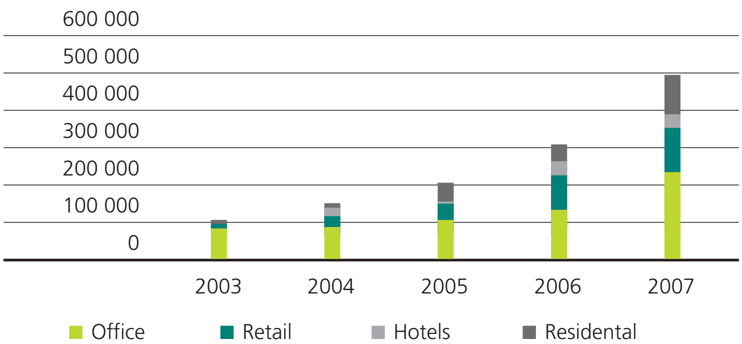
Management Discussion: Market Overview and Portfolio Development

Introduction

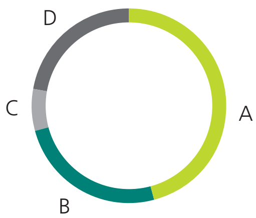
ECM REAL ESTATE INVESTMENTS A.G. is one of Central Europe's leading real estate developers and investors. Whilst its origins are in the development of commercial real estate in the Czech Republic, during the past few years it has successfully diversified into other business lines and moved into a number of different regions, and today its portfolio spans the whole gambit of real estate investment, from commercial and residential, through to retail and hotel development.

Portfolio development by asset type

(sq m)



Portfolio brakdown by asset type (2007)



A – Office	46%
B – Retail	25%
C – Hotels	7%
D – Residential	22%

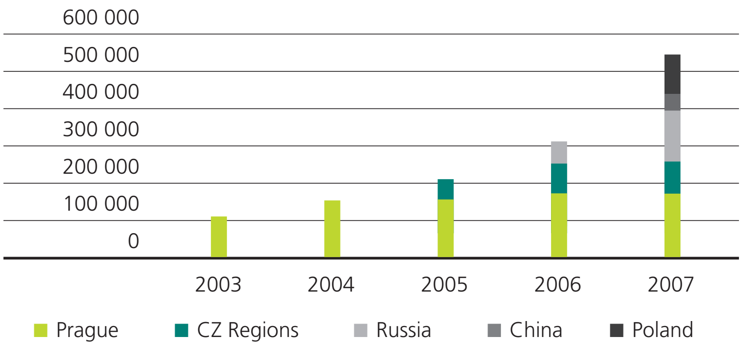
Note: Floor area adjusted for ownership interests

We live from what we get.
We create life with what we give.
Winston Churchill

The year 2007 was clearly the most important and exciting year to date for the whole ECM group, with investments made in Russia, Poland and China as well as the Czech regions and Prague itself. Never one to stand still, the Company plans further investments into all of these countries based on its medium-term expansion strategy through to 2011/2012. Going forward, ECM will continue aiming for a diversification by geography and asset type, as well as single project exposure.

Portfolio development by geography

(sq m)



Portfolio brakdown by asset type (2007)

A – Prague	27%
B – CZ Regions	9%
C – Russia	11%
D – China	37%
E – Poland	16%

Note: Floor area adjusted for ownership interests

Czech Republic

ECM has been one of the leading European real estate developers in the Czech Republic since the early 1990's, and, with its Czech roots and its December 2006 listing on the Prague Stock Exchange, it is only natural that a large part of the Company's exposure remains within the Czech Republic.

From its earliest days, ECM has been keen to build a diversified portfolio of real estate development and investment projects, and this has certainly been achieved in the Czech Republic, where it has been extremely successful with a mixture of commercial, residential, hotel and retail developments, as well as mixed-use projects.

Market Overview

The Czech real estate market remained positive during 2007, with rental values for commercial, office and retail space holding firm and continued heavy foreign investment. In the office market, Prague continued as the main focus of activity within the country, with approximately two-thirds of transactions taking place in the capital city. Occupier activity continued to be strong, and the demand for Class A office space carried on outweighing availability, causing rental values to continue to rise.

Retail investment activity was higher during 2007 than the previous years, due in no small part to a large number of shopping centre deals being announced and many new shopping centre schemes being planned for 2008. Annual rental growth remained high, especially in the shopping centre market, and whilst there is expected to be a gradual slowdown in the country's economy, strong consumer demand ensures that the retail field remains an excellent investment.

As with other areas of Central Europe, however, it is the Czech residential market that has been developing fastest during the past couple of years, particularly the continuously growing demand for upper-mid to high-end residential projects, and whilst Prague still remains the focus, 2007 saw a huge increase in the number of residential projects being started in the Czech regions, one of which belongs to ECM.

ECM in the Czech Republic

Office

The year 2007 was a true landmark for ECM, with the completion of its most important project to date, the tallest building in the Czech Republic, CITY TOWER. Designed by the internationally renowned architect, Richard Meier, CITY TOWER is the flagship of the ECM portfolio and its completion and subsequent letting marks ECM as a true leader in the field of commercial real estate development.

Not everything that counts can be counted,
and not everything that can be counted counts.
Albert Einstein

Also completed during 2007 was the Varenska Office Center in Ostrava, the refurbishment of one of the tallest buildings in Ostrava that began in early 2007 and was completed and successfully let by the end of the year.

2007 also saw the exit of one completed office building from ECM's investment portfolio – CITY POINT – a property of nearly 9,000 sq m of Class A office space in Prague. The building was sold for a total consideration of EUR 30.8 million (to a real estate fund owned by Sal Oppenheim) in March.

Retail

During the year ECM continued with the development process of its high-profile 30,000 sq m retail shopping centre Kaskady Zlin by obtaining, amongst others, an "Environmental Impact Assessment" of the project.

ECM sees further interesting opportunities for retail projects in selected Czech regional cities and plans to follow these in the future.

Hotels

The year 2007 saw rapid development in the hotel segment for ECM. In March the Company completed the EUROPORT center, a mixed-use project at the Prague International Airport that consists of a "Courtyard by Marriott" hotel, a shopping arcade and parking garage. ECM subsequently exited this project in August by transferring it to CA Immo International on the basis of a forward-sale contract. This project turned out to be very profitable, yielding ECM a 32% IRR.

During 2007 ECM also continued construction work on the Diplomat Center in Pilsen, again a mixed-use project consisting of a "Courtyard by Marriott" hotel and commercial office space. The project was completed in September and ECM has secured its guaranteed exit in Q1 2008 through a forward-sale agreement with CA Immo International.

ECM also continued with the development process of the CITY EPOQUE Hotel project in Prague during 2007 and obtained all underlying statements for the zoning permit for the project in September.

Residential

Spring 2007 saw the launch of ECM's Terasy Unhost residential project, a development of 104 unique family houses in beautiful countryside just 17 kilometres outside Prague. The first phase of the project – or 24 houses – was completed in December 2007 with the units being marketed for sale. This project is expected to bring a high rate of return for the company.

The CITY EPOQUE Residence project, one of the most prestigious high-rise residential projects in the country, also moved forward during 2007, with ECM obtaining all underlying statements for the zoning permit for the project in September. Customer demand for these unique apartments continues to exceed the company's expectations, indicating that this will prove to be an exceptionally successful project.

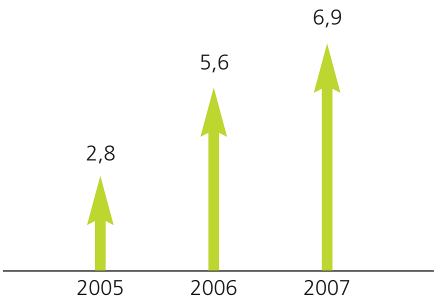
Facility Management Activities

The year 2007 saw the rapid development of ECM Facility within ECM REI A.G., which particularly benefited from the intercompany synergy effect. Apart from properties owned by ECM (including CITY EMPIRIA, Varenska Office Center), among the high-profile properties that the company has been looking after is the headquarters of VZP, the largest health insurance company in the Czech Republic, Sazka Arena, the largest sporting facility in the Czech Republic, Bata Skyscraper in Zlin, as well as a number of properties owned by the SSZ construction company.

In December 2007 ECM Facility also acquired a 50% stake in Optiservis, a specialised facility management company based in Prague, the Czech Republic. Optiservis has a very interesting business portfolio in its core Prague market, including a number of residential projects and this acquisition will further strengthen ECM's position in the facility management business and create further synergy between the two companies.

ECM Facility ended 2007 with revenues of almost EUR 6.9 million, a 22% Y-o-Y increase compared to the EUR 5.6 million reported in 2006.

Revenues of ECM Facility a.s.
(EUR million)



Poland

Market Overview

Poland attracted more than EUR 10 billion of foreign investment in 2007 and there is no sign of its economy slowing down. Unemployment is falling and, whilst inflation has risen slightly, it still remains at a level of just under 2.5%. Such a booming economy has led to a dynamic increase in the demand for high-end office space, particularly in Warsaw, where it is expected that the supply will increase by more than 800,000 sq m by the end of 2008. However, the capital city's dominance is slowly being reduced in favour of the dynamically developing regional cities.

The demand for retail space remains at a stable but high level throughout the country, but whilst there continues to be a number of new shopping malls opening in the downtown areas of Warsaw, it is, again, the regional cities that are seeing the biggest interest from retail investors, particularly the medium-sized towns of more than 80,000 people.

The Polish residential market has been attracting large interest and seeing very rapid development, particularly as the country as a whole is viewed

as an attractive destination for residential investments. However, whilst the residential markets of Warsaw, Krakow and Wroclaw are under continued development, it is the regional centres such as Poznan and Katowice that are of most interest to the major investors, particularly as residential supply in these regions is nowhere near to meeting the high demand.

ECM in Poland

It is with this in mind that in 2007 ECM made its first step into the Polish real estate market with its acquisition of 130,000 sq m of zoned residential land in Poznan. This is the first acquisition by ECM in Poland and the purchase price also includes a 100,000 sq m private lake which is likely to be utilised in the overall plan for the development. ECM expects to reveal its plans for the residential project during 2008, but, in keeping with its surroundings, it is likely to be a combination of up-scale villas/self-contained houses, split-level houses and apartments.

Going forward, ECM sees potential in hotel, residential, office and mixed-use developments throughout the country and it approved a regional expansion strategy for its activities in Poland in August 2007. As has been the case with other markets, ECM expects to continue working in Poland in a considered and selective manner, with a focus on several cities and regions, and an overall aim to transfer expertise and know-how from the Czech Republic and other geographies.

Russia

Entering the Russian market is a natural progression for any major company that is doing business in Central and Eastern Europe, and for the real estate development and investment companies it is seen as a prime target, albeit that it is also considered to be a difficult market to break into.

Market Overview

The last few years have seen the Moscow office market move up very aggressively in terms of new supply and in 2007 alone, approximately 1 million sq m of new office space came onto the market. There is still, however, a serious lack of Class A office space with the result that rental rates for premium space continue to stay at a very high level.

As is the case with other CEE markets, the expectation for the future is for more development to happen outside of Moscow as the availability of spare land plots inside the city and its outskirts is more limited.

The retail market, too, saw some significant changes during 2007, with the appearance of tendencies that are likely to determine the market development well into the future, particularly as retail rents in Moscow have now stabilised since the main reason for their previous growth was the continuous dollar devaluation. There are several new players in the food hypermarket sector entering the market which will increase local competition, and there are several new, quality developments due for completion in the next few months.

The number of constructed and projected retail centres of district, regional and super-regional scale, however, make the deficit of qualitative retail centres for communities and neighbourhoods outside the capital city more and more evident, and it is with these points in mind that ECM entered the Russian market in 2006.

ECM in Russia

During 2007, ECM continued with the development of its 56,000 sq m retail project in Ryazan, approximately 180 kilometres southeast of Moscow. This retail centre will be driven by large international brand-name stores and will also offer 3,500 parking spaces.

During 2007, ECM also acquired an office project in southeastern Moscow to be known as the East Point Office Park. This project will offer 75,000 sq m of grade A office space at an estimated total development cost of EUR 200 million. This is a truly landmark project which will create great value for ECM's shareholders and will strengthen the Company's position on the Russian real estate market.

For the future, ECM remains committed to business in the Russian Federation and will continue looking for projects in a focused and selective manner based on its developed regional strategy. The company sees further potential across all asset classes in Russia, in both large and regional cities.

China

Market Overview

With the build up to the Olympic Games in the summer of 2008, China, and Beijing in particular, saw a huge increase in the supply of retail and office space during 2007, with many developers aiming to complete their projects prior to the building embargo through the Olympic Games which starts at the end of July 2008.

The dramatic influx of new office space was seen as a completely different phase in the development of the Beijing office market, especially in the CBD area, particularly as so much of the demand was for high-end, Grade A office space, generated in no small part by the rapid expansion of the many multinational corporations that have entered the Chinese market in the past few years.

Several key trends also emerged in the residential and retail sectors in 2007 with the retail sector, in particular, following the trend set by the commercial use market as developers strived to complete their projects before the Olympic Games embargo. Again, the trend for 2007 was an overall raising of the quality of new retail developments, as well as an increase in the overall supply for the year with total new supply for 2007 in Beijing alone reaching more than 1,000,000 sq m in office and around 700,000 sq m in retail.

ECM in China

ECM first started looking at the Chinese market in 2004 and with its typical early foresight opened its branch office in Beijing during 2005. Its acquisition of the Globe Plaza retail shopping centre through a forward purchase agreement in August 2007 followed by the acquisition of the adjacent Metropolis Tower office building in the Zhongguancun Area, Beijing's "Silicon Valley", are one of the first ever acquisitions made by a Central and Eastern European property company in Beijing's "Silicon Valley".

The Globe Plaza and Metropolis Tower comprise approximately 77,500 sq m and 35,500 sq m of gross floor area including a car parking, respectively. The total development cost for the projects – including fit-outs, marketing and other costs – is estimated at EUR 170 million. The site is being developed by the Beijing Science Park Development Co., Ltd., a local developer with a wide range of activities throughout Beijing.

In line with its planned strategy to invite strategic and/or financial investors into the larger projects, ECM sold a 40% stake in the Globe Plaza and Metropolis Tower to Metro Holdings Limited and HSBC NF China Real Estate Fund in December 2007. Metro Holdings Limited is one of the leaders in department store operation in Asia with operations in China, Malaysia, Indonesia, Singapore, while HSBC NF China Real Estate Fund with capital of USD 700 million specialises in real estate acquisitions in China. Partnering with these two companies will be a supporting factor in the value creation process in retail operation and asset management of the projects.

Management Discussion: Financial Analysis 2007

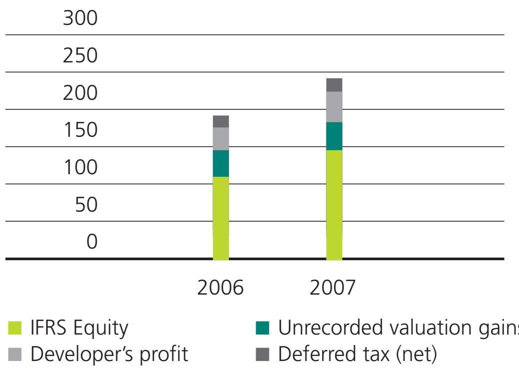
NAV

ECM's NAV is calculated in accordance with EPRA methodology on the basis of an independent external appraisal of the Company's development and investment projects and is subsequently further verified by its auditors. As of 2007, valuations were provided by King Sturge for projects in the Czech Republic and Ryazan, CB Richard Ellis for the two projects in China, Cushman & Wakefield Stiles & Riabokobylko for East Point Office Park in Moscow and Reas Sp. z o.o. for Poznan Housing Development.

ECM reported total NAV of EUR 244 million as of the 2007 year-end, an increase of 25% compared to the EUR 195.2 million reported for 2006. Among the main factors affecting the NAV's growth and structure was the growth in shareholders' equity, the continued progress of the CITY TOWER project and the subsequent realisation of value from this project through its reclassification to investment portfolio and valuation of the two projects in China.

NAV Structure

(EUR million)



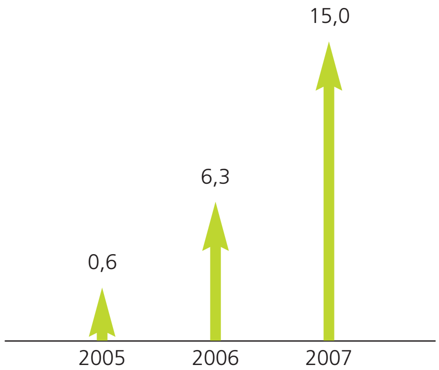
Unrecorded valuation gains include valuation of ECM's running businesses

Net Rental and Related Income

In 2007 ECM reported strong 139% Y-o-Y growth in net rental and related income to EUR 15 million, mainly supported by growing gross rental income (+78% Y-o-Y) and service income (+182% Y-o-Y), and far outweighing the annual growth in service charge and property operating expenses stemming from the operations of the income-generating properties. The main contributors of rental income for 2007 were CITY EMPIRIA, CCS Headquarters and CITY POINT whilst the main contributors of service income for 2007 were ECM Facility, ECM Hotel Operations EUROPORT and the ECM Hotel Operations Plzen.

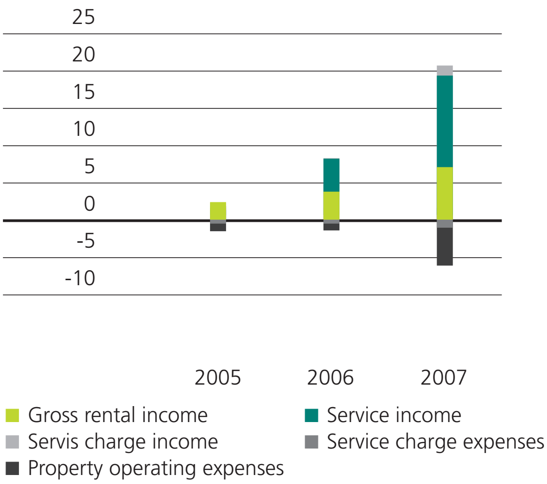
Net rental and related income

(EUR million)

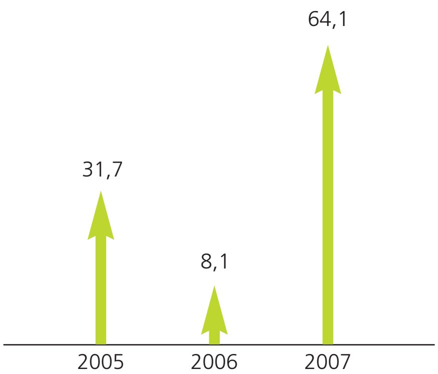


ECM also reported certain valuation losses related to some of its investment projects, however, these accounting losses were primarily related to the FX fluctuation due to the strengthening of CZK during 2007 rather than any deterioration in the value of these projects. In addition, these losses were matched by FX gains on the revaluation of loans reported as part of the financial income.

Net rental and related income
(EUR million)



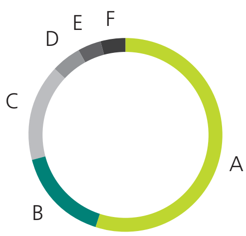
Net valuation gains on investment property
(EUR million)



Net Valuation Gains on Investment Property

ECM reported net valuation gains on investment property jumping by 692% Y-o-Y to EUR 64 million, driven mainly by the successful completion of the CITY TOWER project. The continued progress of the retail shopping projects in both Ryazan and Zlin, as well as the revaluation of the two residential projects in Poznan and Prague acquired in 2007, also supported ECM's valuation gain in 2007.

Portfolio brakdown by asset type (2007)



A – CITY TOWER	55%
B – Ryazan	16%
C – Kaskáda Zlín	16%
D – CITY PARKVIEW	5%
E – Poznan residence	4%
F – Other	4%

Gain/Loss on the Disposal of Investment Property

The Company sold two projects from its investment portfolio in 2007: the CITY POINT office building (completed) in March and the Letnany Residence project (under development) in December, and ECM booked a profit of almost EUR 4 million on these two transactions, in addition to deferred taxes released as a result of the sale of the projects.

Other Income/Expense

ECM reported net other expenses of EUR 33.2 million for 2007, mostly due to the one-off cancellation fee of EUR 27.5 million related to the cancelled future share purchase agreement on the sale of the CITY TOWER, as well as the EUR 1.9 million contractual penalty resulting from the withdrawal from the contract on future sale of the CCS Headquarters.

Financial Income/Expense

ECM reported net financial expenses of EUR 3.7 million for 2007, compared to net financial income of EUR 15.1 million in 2006; however, the results of 2006 were affected by a one-off financial gain on the restructuring of the mezzanine loans with BOHL MEZZANINE INVESTMENT S.A.

Financial income for 2007 was supported by the revaluation of bank loans due to the appreciation of the Czech Koruna vs. the Euro during the year. These FX gains were matched by FX-related valuation losses that resulted from the appreciation of the CZK. In addition, the revaluation of the CZK resulted in accounting gains on the revaluation of the FX forward contracts that have been used to secure a predictable cash flow when related to the development and construction of the projects.

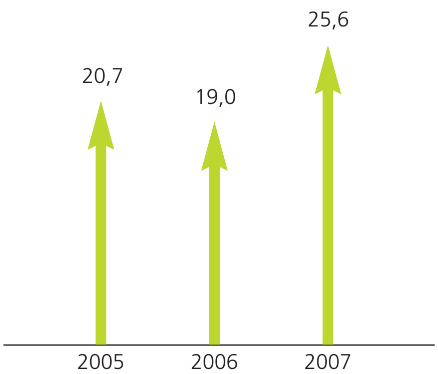
Interest expense and interest charges grew by 142% Y-o-Y to EUR 10.9 million in 2007 on a 102% Y-o-Y increase in interest-bearing liabilities to EUR 331.2 million. During the year, ECM issued EUR 30 million in CZK five-year senior unsecured bonds, as well as issuing EUR 94.5 million in four-year bonds with warrants, a portion of which was used to (i) refinance the outstanding EUR 25.2 million issue of bonds with warrants issued in 2006, and (ii) exchange part of the outstanding Warrants 2006.

Profit for the Period

For 2007 ECM reported net profit of EUR 25.6 million, an increase of 35% Y-o-Y compared to the EUR 19 million reported for 2006. The Company's bottom line profitability was further supported by the write-back of deferred taxes relating to (i) tax exempt revenues (the exit from the CITY POINT and EUROPORT projects), and (ii) the decrease in the statutory tax rate in the Czech Republic.

For 2007 the Company reported basic and diluted earnings per share of EUR 6.4 and EUR 5 respectively, compared to EUR 7.3 and EUR 5.7 respectively in 2006.

Profit for the period
(EUR million)




In order to do things differently,
you need to see them differently.
Paul Allaire

Corporate Governance Principles

Sound corporate governance enables effective management control, safeguards shareholder interests and serves as an important tool to build a stable corporate culture. The Board of Directors has therefore taken measures to create an efficient corporate governance system and, in 2006, decided that the Company will adopt the rules of the United Kingdom Combined Code of Corporate Governance (the "Code") insofar as they apply to the Company. The Company decided to gradually and progressively restructure its management and administration structure with the aim of utmost compliance with the Code in the future. In the first phase of restructuring, the Company began to introduce the following management and administration structure:

Board of Directors

The Company and the Group shall be strategically managed by the Board of Directors which shall decide all crucial issues of the Company and of its holding, and be supported by the Executive Committee (the "Executive Committee") as its body and by the Boards of Directors (the "BU Board") and Committees (the "BU Committee") of the Business Units.

The Board shall further establish Audit, Remuneration, Nomination and Valuation Committees. The functioning of the Board of Directors shall be stipulated in the Company's Articles of Association and in the Rules of the Board of Directors, which shall be adopted by the Board of Directors.

The Board of Directors shall have at least three but no more than seven members.

The directors shall hold office for a maximum period of three years and shall thereafter be eligible for re-election. The non-executive directors shall be eligible for re-election if they continue to meet the independence criteria.

The Chairman of the Board of Directors (the "Chairman") and the other members of the Board of Directors shall be elected by the general meeting of shareholders, taking into account the recommendations of the Nomination Committee.

The Board of Directors shall appoint one of its non--executive directors to act as a vice chairman and a senior independent director (the "Vice-Chairman" or the "Senior Independent Director").

The Rules of the Board of Directors shall stipulate matters reserved for the Board of Directors. Among such matters shall be the (i) determination of the corporate, management and control structure of the Company and of the Group; (ii) establishment of committees of the Board of Directors; adoption of their rules and appointment of their chairmen and members; (iii) approval of the quaterly, half-yearly report and final results report and accounts; adoption of significant changes in accounting policies; approval of the dividend policy; (iv) ensuring the maintenance of a sound system of internal control and risk management; (v) decisions related to capital projects of Company subsidiaries with a total budget exceeding EUR 100 million; approval of equity drawing exceeding EUR 10 million, extra equity allocation, loan raising above approved plan, loan drawing exceeding EUR 10 million, extraordinary spending within operational finance, purchase of assets exceeding EUR 10 million, as well as all off-balance sheet commitments and collateral; (vi) approval of core corporate policies, including the Code of Conduct; the Share dealing code; the Health and safety policy; the Environmental policy; the Corporate social responsibility policy; and the Charitable donations policy; (vii) approval of the appointment of the Group's principal professional advisers; and (viii) approval of the overall levels of insurance for the Company, including Directors' & Officers' liability insurance and indemnification of directors.

Executive Committee

The Executive Committee shall have an analytic and advisory role and shall be made up of the President and all Executive Vice-presidents and Senior Vice-presidents of the ECM Group. It shall meet six times per year or as otherwise required.

The duties of the Executive Committee shall include proposing a four-year rolling plan and budget to the Board of the Company; discussion of best practices in conducting the business of different business units; discussion of particularly noteworthy information about new projects of the Group; and discussion of issues pertinent to the relationship of the business units, such as the amendment of project equity levels that have been previously approved by the Board and the transfer of people from one business unit to another.

The Executive Committee shall report to the Board of Directors of the Company with its proposals and recommendations on the running of the business of the Group.

Is there any other pleasure in the world than the feeling that we have pleased someone else?

Benjamin Franklin

Audit Committee

The Audit Committee shall be made up of three members appointed by the Board of Directors on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. Members of the Audit Committee shall be three non-executive directors. In the event there are only two non-executive directors, an independent external member with recent and relevant financial experience shall join the Audit Committee.

The Audit Committee shall meet quarterly and as otherwise required.

Its duties shall include (i) monitoring of the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements; reviewing significant financial reporting issues and judgements which they contain; (ii) reviewing the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company/Group; reviewing of all material information presented with the financial statements; (iii) reviewing of the effectiveness of the Company's internal controls and risk management systems; (iv) monitoring and reviewing of the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system; and (v) considering and making recommendations to the Board of Directors, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor; overseeing the relationship with the external auditor, including the approval of their remuneration, terms of engagement and annual assessment of their independence and objectivity.

As part of its reporting responsibilities, the Audit Committee shall report formally to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities and make whatever recommendations to the Board of Directors it deems appropriate on any area within its remit where action or improvement is needed.

Remuneration Committee

The Remuneration Committee shall be made up of three members appointed by the Board of Directors, on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee. Members of the Remuneration Committee shall be three non-executive directors or in the event that there are only two non-executive directors, an independent external member with recent and relevant experience in the field of human resources shall join the Remuneration Committee.

The Remuneration Committee shall meet at least twice a year and at such other times as its chairman shall require.

Its duties shall include those mentioned in the section "Appraisal and Remuneration of the Company Officials" below, including (i) suggesting and recommending with the Board of Directors the framework or broad policy for the remuneration of the members of the Board of Directors, the Company Secretary, and members of the executive management in the second management level; and (ii) reviewing the ongoing appropriateness and relevance of the remuneration policy. It shall discuss the performance of the Board of Directors, its committees and its individual directors at least once a year.

As part of its reporting responsibilities, the Remuneration Committee shall report formally to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities and make whatever recommendations to the Board of Directors it deems appropriate on any area within its remit where action or improvement is needed.

Nomination Committee

The Nomination Committee shall be made up of three members appointed by the Board of Directors. Members of the Nomination Committee shall be one non-executive director, the Executive Vice-President for Corporate Affairs and either a non-executive director or an independent external member with recent and relevant experience in the field of top corporate management.

The Nomination Committee shall meet at least twice a year and at such other times as its chairman shall require.

Its duties shall include (i) regularly reviewing the structure, size and composition of the Board of Directors and making corresponding recommendations for changes; identifying and nominating for the approval of the Board of Directors, candidates to fill Board of Directors vacancies; before making an appointment, evaluating the balance of skills, knowledge and experience on the Board of Directors and the preparation of a description of the role and capabilities required for a particular appointment; making annual evaluation of the time required from and actually spent by non-executive directors; (ii) making recommendations to the Board of Directors regarding plans for succession for both executive and non-executive

directors; making recommendations concerning an appointment of executive vice-presidents and senior vice-presidents; making, in consultation with their chairmen, recommendation on membership of the Audit, Valuation, and Remuneration Committees; and (iii) making annual appraisal of the performance of the Company's President, taking into account the views of the executive directors; performance of the executive directors, whereas the President shall be present and shall have a voting right and performance of executive vice-presidents and senior vice-presidents. As part of its reporting responsibilities, the Nomination Committee shall report formally to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities and make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Valuation Committee

The Valuation Committee shall be made up of three members appointed by the Board of Directors on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee. Members of the Valuation Committee shall be two non-executive directors and either the Executive Vice-President for Finance or other executive vice-president. In the event that there is only one non-executive director, an independent external member with recent and relevant valuation experience shall join the Valuation Committee.

The Valuation Committee shall meet quarterly and as otherwise required.

Its duties shall include (i) regularly reviewing valuations for financial reporting; (ii) providing the Board of Directors with its opinion on the value of projects which the Group plans to acquire or dispose of and the value of which may exceed EUR 5 million; and (iii) other duties corresponding to the Valuation Committee's area of expertise which the Board has placed reasonably upon it. The Valuation Committee shall strictly observe the investment policy, in particular broad valuation principles and investment strategy of the Company, laid down by the Board of Directors.

As part of its reporting responsibilities, the Valuation Committee shall report formally to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities and make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Company Secretary

The Board of Directors shall appoint a Company Secretary whose role will be to provide for compliance with the Corporate Governance documentation and to facilitate effective information flows between the Board of Directors and its bodies and between senior management and non executive directors.

The Company Secretary shall in particular organise meetings of the Board of Directors and of its committees and formulate meeting agendas with the President.

The performance of his/her duties shall ensure among others: that an annual general meeting of shareholders is held in accordance with the requirements of Luxembourg, other applicable laws and regulations, and the Company's Articles of Association; and the publication and distribution of the Company's annual report, and interim statements as well as securing the personnel for organisation of meetings of BU Boards and BU Committees.

Appraisal and Remuneration of the Company's Officials

Remuneration of the members of the Board of Directors shall consist of an annual flat fee, which the Board, following review and recommendation by the Remuneration Committee, shall propose for approval by the annual general meeting of shareholders.

Appraisal of the performance of (i) the executive directors, undertaken by the Nomination Committee with the President present and having a voting right, and (ii) the non-executive directors, proposed by the Chairman of the Board, shall be delivered to the Remuneration Committee.

The remuneration of the President shall consist of (i) a base remuneration, (ii) an annual bonus remuneration, and (iii) a share incentive plan. Such remuneration of the President shall be approved by the annual general meeting of shareholders on the basis of a review and recommendation by the Remuneration Committee, put forward to it by the Board of Directors. Appraisal of the performance of the President, made by the Nomination Committee, which shall take account the views of the executive directors, shall be delivered to the Remuneration Committee. The President shall be also entitled to remuneration as a member of the Board of Directors.

When something gets complicated, make it simple.
If you can´t make it simple, cancel it!
Richard Koch

The remuneration of the members of the Board of Directors of the Company shall consist of (i) a base remuneration, (ii) an annual bonus remuneration, (iii) a share incentive plan. Such remuneration shall be approved by the annual general meeting of shareholders, on the basis of a review and recommendation by the Remuneration Committee, put forward to it by the Board of Directors.

The remuneration of the Company Secretary shall consist of an annual flat fee and shall be decided by the Board on the recommendation of the Chairman of the Board.

Business Units

The Company intends to have its organisational structure based on a business unit model consisting of four units; the Czech Republic, Russia, other Central and Eastern European Countries, and China. Decision-making in relation to projects located in the same geographical location would be divided between the Board of Directors of the Company and bodies of the Board of Directors of the Company, on the one hand, and the Board of Directors, its bodies and management of business unit holding companies, on the other hand. Each of the four geographical units serves a defined market where management can organise strategic planning more effectively by responding to different local needs. There will be a nuanced approach in each unit to the following: market and project research; feasibility studies; project acquisitions; permits; debt and equity financing; project management and cost evaluation; product marketing and leasing; completion and product delivery; facility and property management; exit strategies; and the valuation of properties. The Board of the Company will, however, retain control over strategic decisions, assisted by its bodies (see below), in particular by the Executive Committee, which shall serve as a platform of exchange of information between different business units and discussion of issues pertinent to the relationship of the business units.

Remuneration Report

Remuneration and Benefits

Board of Directors and Executive Management Council

At the Annual General Meeting dated 24 April 2007, the shareholders of the Company approved the total remuneration to the members of the Board of Directors ("Board") and members of the Executive Management Council ("EMC") in the total amount of EUR 1,270,000, with an annual increase of 8%. During 2007, the Company paid EUR 1,188,160 to the members of the Board of Directors in their capacity as members of the Board and members of the Executive Management Council. Total remuneration each year is subject to the subsequent approval by the shareholders at the Annual General Meeting of the Company.

As disclosed in the IPO Prospectus, the Company committed itself to paying fixed remuneration to any Board member or any EMC member as disclosed in the IPO Prospectus also after the termination of their mandate in case that his or her mandate is terminated and the Company will request the particular member to comply with the non-competition clause stipulated in his or her mandate agreement.

In the non-competition clause the member covenants and agrees that for a period of one year after termination of his office he or she will not, either directly or indirectly, as owner, employee, partner, investor, shareholder (other than solely as a holder of not more than 5% of the issued and outstanding shares of any public corporation), consultant, advisor or otherwise, howsoever engaged in the operation of, having financial interest in or providing, directly or indirectly, financial assistance to or lend money to or guarantee the debts or obligations of any business operation engaged in any business that is competitive with or identical to the business conducted by the Company or any of its subsidiaries or affiliates (the "Group Companies"). In the event that the office of the member is terminated due to his fraudulent activity or any other intentional activity against the Company's interests, the member is obliged to comply with the restrictions in the previous sentence without the claim for remuneration. For the purpose of this non-competition clause any business is considered to be competitive only in the case that it is a real-estate development related activity with a total investment by the member amounting to at least EUR 3,000,000.

Members of ECM's Board of Directors and certain of ECM's managers, including members of the Executive Management Council, participate in a Management Incentive Scheme (MIS) which is scheduled to run from 1 January 2007 to 31 December 2009.

Participants in the MIS are entitled to a set allocation in each year on the condition that the Company reaches its specified net profit targets. ECM Group N.V. will assist participants in the MIS by providing collateral for them to obtain options. In 2007 no options under the existing MIS were exercised.

The accrued remuneration of the Members of the Board of Directors is as follows:

In thousands of Euros	2007	2006
Total remuneration and benefits paid to the members of the Board of Directors from ECM REI A.G.	1,188	1,683
Total	**1,188**	**1,683**

Additional remuneration paid from other ECM Group companies is as follows:

In thousands of CZK	2007
Total of remuneration and benefits paid from other ECM Group companies	1,372
Total	**1,372**

List of trades with securities of ECM REAL ESTATE INVESTMENTS A.G.
(ISIN: LU0259919230)

Individual	Transaction	Total Number of Shares
Members of the Board of Directors	acquisition	3,166
Related persons of members of the Board of Directors	acquisition	78

Cost of ECM Group related to the services of external auditors in 2007

In thousands of Euros*	Audit	Other	Total
ECM REAL ESTATE INVESTMENTS A.G.	210	0	210
Other companies of the ECM Group	115	93	149
Total	**325**	**93**	**359**

*Using the average exchange rate for 2007

Corporate Social Responsibility

Philanthropy

As a major investor in the region, ECM is aware of the importance of all high profile companies to set an example in the area of corporate social responsibility and it takes this role very seriously. ECM invests in areas that are closest to its heart; education, because these new and emerging markets depend on their young people to continue their development into the future; art, because the Czech Republic, in particular, is famous for its art, its architecture, and its culture; and sport, and tennis in particular, because this is a region that is famous for its tennis and if it is to continue to be on the world stage, it needs to be supported! Most importantly, however, with its biggest development and its own head office situated in this part of the city, ECM looks to be a leading benefactor for the Prague 4 region of the Czech Republic, and this is where a great deal of its corporate social responsibility efforts have been directed to date.

Education

ECM has been a long-term supporter of the Tomáš Baťa Foundation (http://www.batova-vila.cz), set up by one of the Czech Republic's most famous sons to support the education and culture of young people in a number of different ways, including regular courses and educational programmes, the production of specialist publications, conferences and exhibitions, the organisation of trips abroad for students and the support of children's homes, schools and universities.

Contemporary Art

ECM is a partner of Art CZ (www.art.cz), one the Czech and Slovak's leading art distributors and it also sponsors the quarterly publication "Revue Art" which focuses on Czech and Slovak art.

Sport

ECM has been the major sponsor of the ECM Prague Tennis Open since 2001 and from a quiet start it is now one of the most famous sporting competitions in the Czech Republic's calendar. One of the tournament's highlights was in 2006, when the legendary tennis player, Martina Navratilova, took part, whilst in 2007 it made the headlines again with two of the sports' legends, Goran Ivanisevic and Richard Krajicek taking part in a special exhibition match.

ECM has also been a long-term supporter of Miroslav Brychta, the leading Czech wheelchair tennis player and a member of the Czech national wheelchair tennis team.

Relations with the Inhabitants of Prague 4

In 2007 ECM continued to provide help to the Prague 4 community.

For the second year running it worked with the Plamínková primary school to modernise a local sports ground where not only the school's pupils can spend their free time but also other people from the Pankrác area who can also use it for sporting purposes. As well as providing financial assistance, ECM also collaborates with the school on other activities, such as local sports tournaments and a rubbish sorting and paper collection project where the joint aim of the school and ECM is to teach pupils to understand and behave carefully towards the environment.

ECM has also given computers to both this school and others in Prague 4 and Prague 8 and has equipped not only classrooms but also, for example, rooms in after-school clubs and rest areas in school canteens.

ECM has also been a long-term supporter of the nursery unit in Prague 4 – Krč, particularly with its financial support of musicotherapy project for critically sick children. The aim of this project is to enable children suffering from various types of mobility, mental and sensory handicap to develop their emotional intelligence and ability to learn. ECM financial support enables the unit to provide this unique care to a greater number of children.

There are numerous other one-off events that ECM organises together with the district of Prague 4, including, for example, the donation of presents to local children attending the annual St. Nicholas's Eve party, the Iron Fireman competition, where fireman from all over Europe take part in a competition that involves the running up the stairs of the City Empirium (26 floors!) as well as a number of other events, and other local activities that all go together to make the lives of those living and working in and around Prague 4 that bit easier.

Ecology

With environmental issues becoming ever more important, particularly in Central and Eastern Europe where the ecological problems from the past are only now starting to be addressed, ECM, as a leading public company, takes its environmental responsibilities very seriously.

Right from the very early planning and design stages of any new development, through to construction and management of the project, every consideration is given to ensure that the highest-quality buildings are created and that the environmental issues involved in the development are acted upon, with the end result being an overall improvement to the surrounding areas of each new project.

A perfect example of this care for the environment is ECM's Diplomat Center which opened in Plzen in November, 2007. Not only did this development bring more than a hundred new jobs and increased investment into the city, but it also saw the Company invest heavily into the local transport systems and the landscaping of extensive parkland belonging to the city.

The Diplomat Center complex itself stands in Plzen's attractive historical city centre, with the last remains of the city's old fortifications being just next door, in grounds that blend into the extensive parkland that is part of the greenbelt that runs around the city centre. ECM invested approximately CZK 30 million into the complete reconstruction of the roads and paths that run around the multi-use complex as well as the park itself, levelling off the parkland and replacing the lawns, and laying new cobble stones throughout.

ECM also takes care in the construction of its buildings to ensure that the highest quality products are used, that the best energy and water saving devices are in place, and that, where possible, discarded materials from demolished buildings are recycled and put to work again. In 2007, for example, ECM perfectly demonstrated this approach, by donating the original windows of the Varenska office building in Ostrava to a local school as these no longer fit with the overall concept of the building's refurbishment.

ECM believes that, as a company that sets trends for Central and Eastern Europe, it needs to be leading the way in taking responsibility for the environment and in everything that it does, it endeavours to meet this requirement.

Deloitte.

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Report of the Reviseur D'entreprises

To the shareholders of,
ECM Real Estate Investments A.G., 9 rue du Laboratoire, L-1911 Luxembourg

Report on the financial statements

Following our appointment by the General Meeting of the Shareholders, we have audited the accompanying consolidated financial statements of ECM Real Estate Investments A.G., which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of directors' responsibility for the financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the réviseur d'entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des réviseurs d'entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the réviseur d'entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated statements 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of ECM Real Estate Investments A.G. as of 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the board of directors, is in accordance with the consolidated financial statements.

Deloitte SA
Réviseur d'entreprises

Olivier Lefèvre
Partner

26 March 2008

ECM REAL ESTATE INVESTMENTS A.G.
Consolidated Income Statement
For the year ended 31 December 2007

The financial statements were authorised for issue by the directors on 15 March 2008.

In thousands of Euros, unless stated otherwise	Note	2007	2006
Gross rental income	3.3	7,054	3,964
Service income	3.3	12,285	4,351
Service charge income	3.4.1	1,681	32
Service charge expenses	3.4.1	(1,339)	(194)
Property operating expenses	3.4.2	(4,651)	(1,871)
Net rental and related income		**15,030**	**6,282**
Valuation gains on investment property	3.5.1	68,400	11,034
Valuation losses on investment property	3.5.2	(4,311)	(2,941)
Net valuation gain on investment property		**64,089**	**8,093**
Proceeds from the sale of investment property	3.6	32,124	16,008
Carrying value of investment property sold	3.6	(28,161)	(16,127)
Gain/(Loss) on the disposal of investment property		**3,963**	**(119)**
Proceeds from the sale of financial investment in associates	3.7	2,971	–
Carrying value of financial investment in associates sold	3.7	(3,185)	–
Loss on the disposal of financial investment		(214)	–
Proceeds from the sale of trading property – inventory and related accounts	3.8	2,762	2,424
Carrying value of trading property – inventory and related accounts sold	3.8	(2,448)	(2,162)
Profit on the disposal of trading property		**314**	**262**
Administrative expenses	3.9	(20,431)	(8,122)
Other income	3.10	787	4,623
Other expenses	3.11	(33,994)	(1,645)
Net other (expense)/income		**(33,207)**	**2,978**
Net operating profit before net financial (expense)/income		**29,544**	**9,374**
Financial income	3.12	9,278	20,476
Financial expenses	**3.12**	**(12,957)**	**(5,383)**
Net financial (expense)/income		**(3,679)**	**15,093**
Share of the profit of associates and joint venture		12	373
Profit before tax		**25,877**	**24,840**
Current tax expense	3.13.1	(1,284)	(1,769)
Deferred tax income/(expense)	3.13.1	971	(4,116)
Income tax expense	**3.13.1**	**(313)**	**(5,885)**
Profit for the period		**25,564**	**18,955**
Attributable to:			
Equity holders of the parent company		25,833	18,755
Minority interest		(269)	200
Profit for the period		**25,564**	**18,955**
Earnings per share			
Basic earnings per share (euros)	3.23.5	6.4	7.3
Diluted earnings per share (euros)	3.23.5	5.0	5.7

ECM REAL ESTATE INVESTMENTS A.G.
Consolidated Balance Sheet
As at 31 December 2007

In thousands of Euros	Note	2007	2006
Investment property	3.14	377,283	200,937
Property plant and equipment	3.15	13,967	14,835
Intangible fixed assets	0	421	634
Goodwill	0	7,793	660
Investments in associates and joint venture	3.17	24	2,909
Other investments	3.17	317	–
Advance payments for shares		211	333
Provided loans	3.18	7,802	1,328
Long term receivables		–	2
Deferred tax assets	3.13.4	14,531	6,769
Total non-current assets		**422,349**	**228,407**
Assets held for sale	3.19	27,353	–
Trading property	3.20	13,534	47,588
Income tax receivable	3.13.3	165	17
Trade and other receivables	3.21	62,812	19,182
Cash and cash equivalents	3.22	36,753	37,901
Total current assets		140,617	104,688
TOTAL ASSETS		562,966	333,095

	Note	2007	2006
EQUITY	3.23		
Issued capital		7,229	6,350
Share premium		44,467	53,260
Reserves		175	161
Equity instruments		7,438	1,656
Retained earnings		75,648	49,821
Translation reserve		12,831	6,436
Total equity attributable to equity holders of the parent company		**147,788**	**117,684**
Minority interest		168	–
Total equity		**147,956**	**117,684**
LIABILITIES			
Interest-bearing loans and borrowings	3.24	149,797	110,461
Convertible bonds	3.25	80,253	24,027
Other bonds	3.26	30,338	–
Long-tern liabilities from derivatives	3.25	5,521	–
Finance lease liabilities	3.29	17,986	14,469
Deferred tax liabilities	3.13.4	31,908	24,934
Total non-current liabilities		**315,803**	**173,891**
Liabilities held for sale	3.19	25,362	–
Trade and other payables	3.27	42,414	24,721
Bank overdraft	3.24	15	229
Interest-bearing loans and borrowings	3.24	28,314	15,451
Provisions	3.28	3,102	1,119
Total current liabilities		**99,207**	**41,520**
Total liabilities		**415,010**	**215,411**
TOTAL EQUITY AND LIABILITIES		562,966	333,095

ECM REAL ESTATE INVESTMENTS A.G.
Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

In thousands of Euros	Share capital	Share premium	Transla-tion reserve	Legal reserve fund	Equity Instru-ment	Retained earnings	Total attri-butable to equity holders of the parent company	Minority interest	Total equity
Balance at 1. 1. 2006	4,500	–	3,042	21	–	38,585	46,148	1,275	47,423
Total recognised income and expense	–	–	3,394	–	–	18,755	22,149	200	22,349
Increased share capital	600	–	–	–	–	(600)	0	–	0
Own shares acquired	(918)	–	–	–	–	(6,056)	(6,974)	–	(6,974)
Own shares issued	2,168	53,260	–	–	–	–	55,428	–	55,428
Addition to the legal reserve fund	–	–	–	140	–	(140)	–	–	–
Newly acquired companies and common control transactions	–	–	–	–	–	(723)	(723)	(1,482)	(2,205)
Disposed companies	–	–	–	–	–	–	–	7	7
Other changes in equity	–	–	–	–	1,656	–	1,656	–	1,656
Balance at 31. 12. 2006	**6,350**	**53,260**	**6,436**	**161**	**1,656**	**49,821**	**117,684**	**–**	**117,684**
Balance at 1. 1. 2007	6,350	53,260	6,436	161	1,656	49,821	117,684	–	117,684
Total recognised income and expense	–	–	6,395	–	–	25,833	32,228	(269)	31,959
Own shares issued	216	5,547	–	–	–	–	5,763	–	5,763
Equity Step-up	663	18,479	–	–	–	–	19,142	–	19,142
Addition to the legal reserve fund	–	–	–	14	–	(14)	–	–	–
Equity Instrument included in convertible bonds issued	–	–	–	–	7,438	–	7,438	–	7,438
Equity Instrument included in convertible bonds converted	–	(32,819)	–	–	(1,656)	–	(34,475)	–	(34,475)
Newly acquired companies and common control transactions	–	–	–	–	–	–	–	437	437
Other changes in equity	–	–	–	–	–	8	8	–	8
Balance at 31. 12. 2007	**7,229**	**44,467**	**12,831**	**175**	**7,438**	**75,648**	**147,788**	**168**	**147,956**
Note	3.23.1	3.23.1							

ECM REAL ESTATE INVESTMENTS A.G.
Consolidated Cash Flow Statement

For the year ended 31 December 2007

In thousands of Euros	2007	2006
Cash flows from operating activities		
Profit for the period before tax	25,877	24,840
Adjustments for:		
Depreciation	693	649
Amortisation	493	40
Foreign exchange losses	109	(8,042)
Change in the value of investment property	(64,089)	(8,093)
Interest expense	9,856	3,191
Share of profit of associates	(12)	–
Gain on the sale of investments in associates	214	–
Gain on the sale of trading property – inventory	(314)	(262)
Loss from the sale of investment property	(3,963)	119
Gain/loss on the sale of property, plant and equipment	–	35
Other	2,061	13
Operating profit before changes in working capital and provisions	**(29,075)**	**12,490**
Increase in trade and other receivables	(11,262)	(2,773)
Increase in trading property – inventory	(58,960)	(10,046)
Decrease in trade and other payables	11,619	9,159
Increase in provisions and employee benefits	1,947	899
Cash generated from the operations	**(85,731)**	**9,729**
Interest paid	(4,664)	(2,131)
Interest received	878	125
Income taxes paid	(1,152)	(366)
Net cash from operating activities	**(90,669)**	**7,357**
Cash flows from investing activities		
Proceeds from the sale of plant and equipment	–	29
Proceeds from the sale of investment property	1,246	71
Proceeds from the sale of investments in associates	2,971	–
Proceeds from the sale of trading property	2,762	2,424
Proceeds from repayment of advances paid for investment property	337	–
Proceeds from disposal of subsidiary, net of cash disposed	11,526	(1,486)
Acquisition of subsidiary, net of cash acquired	(41,840)	(36,456)
Acquisition of property, plant and equipment	(2,943)	(7,042)
Acquisition of intangible assets	(503)	–
Acquisition of investment property	(22,730)	(17,042)
Acquisition of other investments	(3,345)	842
Prepayments for subsidiaries	(211)	–
Net cash from investing activities	**(52,730)**	**(58,660)**
Cash flows from financing activities		
Proceeds from the issue of share capital	24,905	54,008
Proceeds from the issue of convertible notes	30,170	24,498
Proceeds from the issue of other notes	28,265	–
Repurchase of own shares	–	(2,325)
Other changes in equity	437	(923)
Repayment of borrowings	56,002	9,107
Payment of finance lease liabilities	2,472	1,912
Net cash from financing activities	**142,251**	**86,277**
Net increase in cash and cash equivalents	**(1,148)**	**34,974**
Cash and cash equivalents at 1 January	37,901	2,927
Cash and cash equivalents at 31 December	**36,753**	**37,901**

CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ECM REAL ESTATE INVESTMENTS A.G.
Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

1. GENERAL INFORMATION

Business firm:
ECM REAL ESTATE INVESTMENTS A.G. (hereinafter "the Company" or "ECM")

Registered office:
9, Rue du Laboratoire
L – 1911 Luxembourg

Registration number:
B 65153

The Company was incorporated on 1 July 1998 for an unlimited period of time.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

Principal activities

The Group's basic objective is to conduct business through specific development projects. The shareholders and employees of the Group are aware of their responsibility to the public and make every reasonable effort to adopt measures that respect the environment and to apply the principles of sustainable development.
The Group focuses on both residential and administrative premises as well as technological parks. This begins with a thorough consideration of the plan through to the final provision of the furnishings for the property to meet the requirements of the tenant or buyer. The Group exercises prudence throughout the project to ensure optimum use of the invested funds. Respect for local communities' interests and an assessment of the impact of every project on the surrounding area and environment are among the Group's priorities. Communication with public administration authorities and the general public throughout the project implementation life-cycle is also carefully considered.

When selecting building contractors, the Group prefers to work with companies that possess the ISO 9001 and ISO 14001 certificates, which guarantee high quality, environmental protection and compliance with the principles of sustainable development.

The Group's principal activities include:
- Development;
- Business Operations; and
- Hotel Operations.

Real estate development focuses on:
- Office spaces; and
- Residential portfolio.

Hotel Operations focuses on:
- Providing of hotel services.

Business Operations focuses on rentals of:
- Office spaces;
- Retail real estate; and
- Hotels.

Major shareholders

The Company currently has a number of shareholders with ECM Group N.V., Amsterdam, Holland, owning the controlling share. There are no controlling agreements or any other arrangements in place which would enable other persons to control the Company by acting in agreement or otherwise.

The owners of the Company are as follows:

Year 2007

Shareholder	Thousands of shares	Share in registered capital	Share in voting rights
ECM Group N.V. – direct control	1,031	24%	24%
ECM Group N.V. – indirect control	835	20%	20%
Other retail and institutional investors	2,387	56%	56%
Total	**4,253**	**100%**	**100%**

Year 2006

Shareholder	Thousands of shares	Share in registered capital	Share in voting rights
ECM Group N.V. – direct control	2,145	57%	57%
Other retail and institutional investors	1,590	43%	43%
Total	**3,735**	**100%**	**100%**

Description of ownership structure
The Company controls, directly or indirectly, a number of other companies in the Czech Republic, Luxembourg, Cyprus, Russia, China and Poland.

List of directors
Milan Janků, Chairman of the Board of Directors of the Company
Jana Žejdlíková, Member of the Board of Directors of the Company
Tomáš Laštovka, Member of the Board of Directors of the Company

Employees review

	2007	2006
Czech Republic	364	174

All of the above-mentioned employees were engaged in the core business activities of the Group, in real estate trading, leasing and administration, or were in charge of related activities for the Group, or its subsidiaries – keeping accounts, selling, supporting activities and services. The employment contracts are signed with ECM Real Estate Investment, k.s., ECM Facility a.s., ECM Finance a.s., ECM Hotel Operations Plzeň s.r.o. and ECM Hotel Operations EUROPORT s.r.o.

Trend information
The Group's strategy is to continue its expansion in Central and Eastern European countries, in Russia and in Asia. Its Russian regional office in Moscow is intensively screening investment opportunities in Moscow and other cities in Russia. The Company also acquired new subsidiaries in China and Hong Kong to profit on new investments in this region.

Business risk
The Group does not enter into speculative transactions of any kind. The Group selects target market segments with the aim of utilising market opportunities under management supervision and focusing on delivering quality products in response to market need. As at today's date, the activities of the Group are focused mainly on the geographical market in Europe, but the Group has established new regional centres in Asia.

They consist of several business lines (offices, retail, residential buildings, and hotels) and are located in various regions of the country with a different level of saturation compared with the Group's original market in the capital of Prague. The different business lines and the different locations, carefully selected for development activities, are subject to different cycles and growth potential which create a natural offsetting of portfolio risk.

The relations between the Group and their suppliers (purchased external services, architects, control authorities, constructors) are regulated by standard contracts. Formal selection procedures/tenders are always carried out. On principle, the Group companies do not provide their suppliers with exclusivity. The development team organises activities systematically and in accordance with given rules and implied corporate culture. This further eliminates the natural market risk given by the existing competition among the leading developers.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union.

(b) Basis of preparation

The financial statements are presented in euros, rounded to the nearest thousand. They are prepared on a historical cost basis, with the exception of investment property and derivatives which are stated at fair value.

The accounting policies have been consistently applied to the results, other gains and losses, assets and liabilities and cash flows of the entities included in the consolidated financial statements and are consistent with those used in the previous year.

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The date of transition to IFRS was 1 January 2003.

The accounting policies have been applied consistently by the Group entities.

All figures are in thousands of euros (EUR), unless stated otherwise.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent company.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses on an equity accounting basis from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation
Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing building items and restoring the building site at which they are located, and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where components of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). Lease payments are accounted for as described in accounting policy (o).

Property held under operating leases that meets the definition of investment property is classified as investment property on a property-by-property basis.

(iii) Subsequent costs
The Group recognises in the carrying amount the cost of replacing part of an item of property, plant and equipment at the time that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as expenses at the time they are incurred.

(iv) Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Tangible fixed assets costing less than TEUR 1 are charged to the income statement in the year that they are acquired. Land is not depreciated.

The costs of improving fixed assets increase their acquisition cost. Repairs and maintenance costs are charged directly to the income statement.

The estimated useful lives are as follows:

Assets	2007	2006
Temporary structures – construction site	2 years	2 years
Machinery and equipment	4–6 years	4–6 years
Motor vehicles	4 years	4 years
Buildings	30 years	30 years

The residual value, if not insignificant, is reassessed annually.

(e) Intangible assets

(i) Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising upon the acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to 1 January 2003, goodwill is included on the basis of the comparison of the cost of initial investment with the net assets (or net liabilities) under IFRS of the investee at the date of transition. The classification and accounting treatment of business combinations that occurred prior to 1 January 2003 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2003.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units (assets) and is no longer amortised but is tested annually for impairment (see accounting policy (i). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on acquisition is recognised directly in profit or loss.

(ii) Other intangible assets
Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (i)). Amortisation is recognised in the income statement line "Administrative expenses".

(iii) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Assets	2007	2006
Other intangible fixed assets	30 years	30 years
Software	4 years	4 years

(f) Investment property
Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. The investment property of the Group primarily includes land held for undetermined future use. Investment properties are stated at fair value. An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, valued the portfolio at the year end of 2007 and 2006 respectively. The results of independent valuations were further analysed by the Group and included in the final management estimates of the fair value. Those estimates considered the results of current and prior external valuations, information from similar selling and purchase transactions and current market conditions. The fair values are based on market values, which are the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion.

When the Group begins to develop an existing investment property for future sale, the property is reclassified to trading property – inventory. The fair value of such property is deemed to be the property's cost for subsequent accounting under IAS 2. Development is deemed by the Group to commence at the moment the permission for construction is obtained from the state authorities, or when the agreement on the sale of the shares of the company that owns the property is signed.

A property interest held under an operating lease is classified and accounted for as an investment property on a property--by-property basis when the Group holds it to earn rentals or for capital appreciation or both. The initial cost of a property held under an operating lease and classified as an investment property is recognised as prescribed for a property held under a finance lease, i.e., the asset is recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability. Subsequently, a property interest held under an operating lease and classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy (o).

(g) Financial instruments

(i) Provided loans
Interest-bearing provided loans are recorded at the proceeds provided, net of direct issue costs. Finance charges, including premiums receivable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The recoverable amount of the Group's provided loans is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate calculated at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Other and trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(iii) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash-flow statement.

(iv) Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

The Company classifies as a current portion any part of long-term loans that is due within one year from the balance sheet date.

As at the date of the preparation of the financial statements, the nominal value of loans is increased by unpaid interest.

Interest and other financial expenses relating to the acquisition of fixed assets incurred until the asset is put is use are capitalised. Subsequently, they are recorded as financial expenses.

(v) Trade and other payables
Trade and other payables are stated at their nominal value.

(vi) Other financial liabilities
Other financial liabilities, including issued bonds, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(vii) Derivative financial instruments
A derivative is a financial instrument or other contract which fulfils the following conditions:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

Hedging derivatives are defined as derivatives that comply with the Company's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss of the period in which they arise.

Fair values are obtained from quoted market prices or discounted cash-flow models, as appropriate. All non-hedge derivatives are carried as current assets when their fair value is positive and as current liabilities when their fair value is negative.

(viii) Available-for-sale financial assets

Available-for-sale financial assets are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Available-for-sale financial assets which are investments in an equity instrument that does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate are carried at cost.

(ix) Compound financial instruments

Compound financial instruments issued by the Group comprise bonds with attached warrants that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument (bond) is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of compound financial instruments is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of compound financial instruments is not re-measured subsequent to initial recognition.

(h) Trading property – inventory

Trading property – inventory is shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Impairment

The carrying amounts of the Group's assets, other than investment property (see accounting policy (f)), trading properties – inventories (see accounting policy (h)) and deferred tax assets (see accounting policy (p)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

In respect of goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (groups of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses of receivables are determined based on an analysis of the credit status of customers and the period for which the receivable has been overdue.

(j) Assets and liabilities held for sale

Assets and liabilities that are expected to be recovered primarily through sale in the following 12 months rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured at the lower of their carrying amount and fair value less cost to sell.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

For further details related to assets held for sale refer to Note 3.19 Assets and liabilities held for sale.

(k) Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than upon a business combination, are shown as a deduction from the proceeds, net of tax, in equity. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(l) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Guaranties provided

In the normal course of business, the Group entities may enter into credit related commitments which are recorded in off balance sheet accounts. These commitments primarily include guarantees. Provisions are made for estimated losses on these commitments. In estimating the losses, the Group refers to the historical data regarding risk parameters (credit conversion factors, probability of default and loss-given default).

(n) Revenue

(i) Services rendered

Revenue from services rendered is recognised in the income statement when the transaction under the service agreement has been completed. This usually involves completion of the development work.

(ii) Rental income

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iii) Sale of trading property – inventory

Revenue from the sale of trading property – inventory is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(o) Expenses

(i) Service costs and property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

(ii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Where the property interest held under an operating lease is classified as an investment property, the property interest is accounted for as if it were a finance lease and the fair value model is used for the asset recognised.

(iii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining capital balance. Contingent rents are charged as expenses in the periods in which they are incurred.

(iv) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method net of interest capitalised, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(p) Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable 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.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic area (geographic segment) and which is subject to risks and rewards that are different from those of other segments. The business activity of the Group is considered to be one segment.

(r) Business combinations involving entities under common control
A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group consistently applied the book value method of valuation to all common control transactions.

(s) Functional and presentation currency
Functional currencies of the companies in the Group depend on the country of their incorporation and operation.

Summary of countries and functional currencies:

Country	Functional currency
Luxembourg	EUR
Netherlands	EUR
Cyprus	EUR
Czech Republic	CZK
Russia	RUB
China	CNY
Poland	PLN

For a detailed list of the companies in the Group refer to Note 3.1.2 Subsidiaries, joint ventures and associates.

The Group presentation currency is the euro (EUR). The Group has selected a different presentation currency because the users of its financial statements base their economic decisions on information expressed in EUR.

The assets and liabilities are translated into EUR at foreign exchange rates ruling at the balance sheet date. The revenues and expenses are translated into EUR at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity. Cash flows are translated into EUR at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

The following exchange rates were used during translations:

Date	Closing exchange rate CZK/EUR	Average exchange rate CZK/EUR for the 12-month period
31. 12. 2007	26.620	27.762
31. 12. 2006	27.495	28.343
1. 1. 2006	29.005	N/A

Date	Closing exchange rate RUB/EUR	Average exchange rate RUB/EUR for the 12-month period
31. 12. 2007	36.004	34.996
31. 12. 2006	34.671	34.099
1. 1. 2006	33.905	N/A

Date	Closing exchange rate CNY/EUR	Average exchange rate CNY/EUR for the 12-month period
31. 12. 2007	9.698	10.406
31. 12. 2006	10.282	9.998
1. 1. 2006	N/A	N/A

Date	Closing exchange rate PLN/EUR	Average exchange rate PLN/EUR for the 12-month period
31. 12. 2007	3.591	3.784
31. 12. 2006	3.831	3.894
1. 1. 2006	N/A	N/A

(t) Impact of Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2007

The following amended standards and interpretations were applied in 2007:

- IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007); and
- Amendments to IAS 1 "Presentation of Financial Statements" on capital disclosures (effective 1 January 2007).

At the date of authorisation of these financial statements, the following standards and interpretations were in issue and endorsed by the EU but not yet effective:

- IFRS 8 "Operating Segments" (effective 1 January 2009);
- Revised IAS 23 "Borrowing Costs" (effective 1 January 2009);
- IFRIC 11 IFRS 2 – "Group and Treasury Share Transactions" (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 "Service Concession Arrangements" (effective 1 January 2008);
- IFRIC 13 "Customer Loyalty Programmes" (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective 1 January 2008).

The adoption of these standards in the future periods is not expected to have a material impact on the consolidated profit or equity.

3. SUPPORTING NOTES TO THE FINANCIAL STATEMENTS

3.1. Group Entities

3.1.1. Control of the Group

The Group's ultimate parent company is ECM REAL ESTATE INVESTMENTS A.G. which is controlled by the owners – ECM Group N.V. (44%) and other retail and institutional investors (56%).

3.1.2. Subsidiaries, Joint-ventures and Associates

		Country of incorporation 31. 12. 2007	Ownership interest 31. 12. 2006
ECM Finance a.s.	Czech Republic	100%	100%
ECM Real Estate Investments, k.s.	Czech Republic	100%	100%
CITY PARKVIEW s.r.o. (SPV Court, s.r.o.)	Czech Republic	100%	100%
CITY TOWER, s.r.o. (SPV TOWER, s.r.o.)	Czech Republic	100%	100%
LANCASTER a.s. (1)	Czech Republic	100%	100%
TABULA MAIOR, a.s.	Czech Republic	100%	100%
TABULA MINOR, a.s.	Czech Republic	100%	100%
ECM Byty s.r.o.	Czech Republic	100%	100%
STROMOVKA OBCHODNI CENTRUM a.s. (ECM Retail CB, a.s.)	Czech Republic	100%	100%
ECM Hotel Operations EUROPORT s.r.o.	Czech Republic	100%	100%
ECM Hotel Operations Plzeň s.r.o.	Czech Republic	100%	100%
ECM OFFICES LIBEN s.r.o.	Czech Republic	100%	100%
ADARKON a.s.	Czech Republic	100%	100%
EPOQUE HOTEL a.s. (1)	Czech Republic	100%	100%
EPOQUE-LANCASTER a.s. (1)	Czech Republic	100%	100%
ECM CITY POINT a.s. (HUANTA a.s.)	Czech Republic	100%	100%
ECM CITY EMPIRIA a.s. (DORMIDA a.s.) (2)	Czech Republic	100%	100%
ECM Facility a.s.	Czech Republic	100%	100%
ECM REGIONS CZ S.a.r.l.	Luxembourg	100%	100%
GRASLON a.s.	Czech Republic	100%	100%
CITY ELEMENT s.r.o.	Czech Republic	100%	100%
CITY DECO s.r.o.	Czech Republic	100%	–
MV CENTRUM, a.s. (2)	Czech Republic	–	100%
EMPIRIA BUILDING s.r.o.	Czech Republic	100%	100%
SAZERAC a.s.	Czech Republic	100%	100%
Palisády, s.r.o.	Czech Republic	100%	–
TORSAR a.s.	Czech Republic	100%	–
NATIONAL BUSINESS CENTRE Ostrava a.s.	Czech Republic	100%	–
NBC National s.r.o.	Czech Republic	100%	–
Ryazan Investors Company Ltd.	Cyprus	100%	100%
Ryazan Shopping Mall Ltd.	Cyprus	100%	100%
Ryazan Hold Company Ltd.	Cyprus	100%	9%
OOO "PROSPEKT"	Russia	100%	–
2P, s.r.o.	Czech Republic	100%	50%
REZIDENCE UNHOŠŤ a.s.	Czech Republic	100%	50%
Czech Real Estate Regions S. a.r.l.	Luxembourg	100%	50%
VARENSKÁ OFFICE CENTER, a.s.	Czech Republic	100%	50%
EKZ Tschechien 4 Immobiliengesellschaft s.r.o.	Czech Republic	50%	50%
ECM Airport Center a.s.	Czech Republic	–	49.5%
OIK City Point Investment a.s. (SPV POINT, a.s.)	Czech Republic	5%	100%
ECM Russia o.o.o. (3)	Russia	–	100%
China East Investment Limited	Hong Kong	60%	–
ECM Property Holding (Tianjin) Co Ltd.	China	60%	–
Metropolis Holding China Limited	Hong Kong	60%	–
Metropolis Holding (Tianjin) Co., Ltd.	China	60%	–
MOLE ONE LIMITED	Cyprus	100%	–
ECM Poland A.G. (China ECM Beijing I. SA)	Luxembourg	100%	–
ECM CHINA Beijing S.a.r.l.	Luxembourg	100%	–
ECM POZNAŇ RESIDENCE sp. z o.o. (formerly Mergus sp. z o.o)	Poland	100%	–
East Point Holding B.V.	Netherlands	30%	–
OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara"	Russia	30%	–
GONDOMAR s.r.o.	Czech Republic	100%	–
HARBINOIR s.r.o.	Czech Republic	100%	–

		Country of incorporation 31. 12. 2007	Ownership interest 31. 12. 2006
LEPORANO s.r.o.	Czech Republic	100%	–
POYNTON s.r.o.	Czech Republic	100%	–
ROBUREN s.r.o.	Czech Republic	100%	–
TALENTONE s.r.o.	Czech Republic	100%	–
URBARIUM s.r.o.	Czech Republic	100%	–
VEPAMOS s.r.o.	Czech Republic	100%	–
LUNZIE a.s.	Czech Republic	100%	–
OPTISERVIS, spol. s r.o.	Czech Republic	50%	–
ECM Russia A.G.	Luxembourg	100%	–

(1) 1 January 2007 was set as the decisive day of demerger by spin-off connected with acquisition of LANCASTER a.s. (the company subject to demerger), EPOQUE HOTEL a.s. (the successor company) and EPOQUE – LANCASTER a.s. (the successor company). The demerger by spin-off connected with acquisition was recorded in the Commercial Register as at 1 November 2007. The demerger by spin-off connected with acquisition has no impact on the consolidated financial statements as at 31 December 2007.

(2) 1 January 2007 was set as the effective day of merger by acquisition of MV CENTRUM, a.s. (the company ceasing to exist) and ECM CITY EMPIRIA a.s. (the successor company). The merger was recorded in the Commercial Register as at 20 September 2007. The merger by acquisition has no impact on the consolidated financial statements as at 31 December 2007.

(3) ECM Russia o.o.o. was included in the consolidated financial statements as at 31 December 2006 because the ultimate parent company assumed its influence in this Russian company to be controlling and increasing in the following periods. In the consolidated financial statements as of 31 December 2007, ECM Russia o.o.o. is presented as a financial investment because of change in management estimates regarding influence in this company.

3.1.3. Acquisitions of Subsidiaries

During 2007, the Group acquired the following companies:

Company	Share	Purchased on
CITY DECO s.r.o.	100%	22 January 2007
Palisády s.r.o.	50%	22 January 2007
TORSAR a.s.	100%	9 March 2007
Palisády s.r.o.	50%	21 March 2007
NATIONAL BUSINESS CENTRE Ostrava a.s.	100%	20 April 2007
NBC National s.r.o.	100%	20 April 2007
Ryazan Hold Company Ltd.	91%	24 April 2007
OOO "PROSPEKT"	100%	24 April 2007
China East Investment Limited (2)	100%	17 July 2007
ECM Property Holding (Tianjin)Co Ltd. (2)	100%	17 July 2007
Metropolis Holding China Limited (2)	100%	17 July 2007
Metropolis Holding (Tianjin) Co., Ltd. (2)	100%	31 July 2007
MOLE ONE LIMITED	100%	4 August 2007
ECM Poland A.G. (formerly China ECM Beijing I. SA)	100%	9 October 2007
ECM CHINA Beijing S.a.r.l.	100%	9 October 2007
ECM POZNAŇ REZIDENCE sp. Z o.o. (formerly Mergus sp. z o.o)	100%	19 October 2007
Czech Real Estate Regions S.a.r.l. (1)	50%	5 November 2007
East Point Holding B.V.	30%	14 November 2007
OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara"	30%	14 November 2007
GONDOMAR s.r.o.	100%	22 November 2007
HARBINOIR s.r.o.	100%	22 November 2007
LEPORANO s.r.o.	100%	22 November 2007
POYNTON s.r.o.	100%	22 November 2007
ROBUREN s.r.o.	100%	22 November 2007
TALENTONE s.r.o.	100%	22 November 2007
URBARIUM s.r.o.	100%	22 November 2007
VEPAMOS s.r.o.	100%	22 November 2007
LUNZIE a.s.	100%	4 December 2007
OPTISERVIS, spol. s r.o.	50%	20 December 2007
ECM Russia A.G.	100%	28 December 2007

(1) Including its subsidiaries 2P, s.r.o., REZIDENCE UNHOŠŤ a.s. and VARENSKÁ OFFICE CENTER, a.s.

(2) The Group acquired 100% shares of these companies as at dates stated above. Subsequently 40% of the shares were sold to Nordevo.

During 2006, the Group acquired the following companies:

Company	Share	Purchased on
ECM REGIONS CZ S. a r.l.	100%	13 January 2006
EPOQUE - LANCASTER a.s.	100%	23 January 2006
ADARKON a.s.	100%	7 February 2006
ECM CITY POINT a.s.	100%	1 June 2006
ECM CITY EMPIRIA a.s.	100%	1 June 2006
ECM Facility a.s.	100%	7 June 2006
EPOQUE HOTEL a.s.	100%	15 June 2006
ECM OFFICES LIBEN s.r.o.	100%	28 June 2006
GRASLON a.s.	100%	27 August 2006
Ryazan Investors company Ltd.	100%	22 July 2006
Ryazan Shopping Mall Ltd.	100%	22 July 2006
MV CENTRUM, a.s.	100%	27 September 2006
OIK City Point Investment a.s.	100%	27 July 2006
CITY ELEMENT s.r.o.	100%	19 September 2006
EMPIRIA BUILDING s.r.o.	100%	27 September 2006
SAZERAC a.s.	100%	31 October 2006
ECM Russia o.o.o	100%	22 November 2006

3.1.4. Effect of Acquisitions

The acquisitions had the following effect on the Group's assets and liabilities:

The acquiree's net assets at the acquisition date (for companies acquired in 2007)

In thousands of Euros	CITY DECO s.r.o.	Palisády, s.r.o.	TORSAR a.s.	NATIONAL BUSINESS CENTRE Ostrava a.s.	NBC National s.r.o.
Investment property	85	–	–	766	879
Intangible fixed assets	–	1	–	–	–
Investments	–	–	–	1,048	–
Trade and other receivables	22	2	1	2,586	19
Cash and cash equivalents	10	5	64	22	21
Trade payables	(108)	(1)	(2)	(772)	(11)
Other long term payables	(2)	–	–	–	–
Deferred tax	–	–	–	(177)	–
Net identifiable assets and liabilities	7	7	63	3,473	908
Fair value adjustments	–	–	–	3,230	–
Net identifiable assets and liabilities in fair values	7	7	63	6,703	908
Consideration, paid in cash	(7)	(7)	(71)	(6,883)	(728)
Cash (acquired)	**10**	**5**	**64**	**22**	**21**
Net cash outflow	**3**	**(2)**	**(7)**	**(6,861)**	**(707)**

The acquiree's net assets at the acquisition date (for companies acquired in 2007) (continued)

In thousands of Euros	Ryazan Hold Company Ltd.	OOO "PROSPEKT"	China East Investment Limited	ECM Property Holding (Tianjin) Co Ltd.	Metropolis Holding China Limited
Provided loans	672	–	–	–	–
Investments	840	–	–	–	–
Trade and other receivables	2	88	–	19,792	–
Cash and cash equivalents	–	74	–	3,146	–
Trade and other payables	(852)	(90)	–	(525)	–
Interest bearing loans	(715)	(734)	–	–	–
Net identifiable assets and liabilities in statutory books	(53)	(662)	–	22,416	–
Fair value adjustments	–	–	–	–	–
Net identifiable assets and liabilities in fair values	(53)	(662)	–	22,413	–
Consideration, paid in cash	(4,340)	(840)	–	(22,413)	–
Cash (acquired)	**–**	**74**	**–**	**3,146**	**–**
Net cash outflow	**(4,340)**	**(766)**	**–**	**(19,267)**	**–**

The acquiree's net assets at the acquisition date (for companies acquired in 2007) (continued)

In thousands of Euros	Metropolis Holding (Tianjin) Co., Ltd.	MOLE ONE LIMITED	ECM Poland A.G.	ECM CHINA Beijing S.a.r.l.	ECM POZNAŇ RESIDENCE sp. Z o.o.
Investments	–	–	13	–	–
Trade and other receivables	9,231	111	–	–	–
Cash and cash equivalents	1,194	–	15	10	17
Trade and other payables	(237)	(3)	(8)	–	–
Interest bearing loans	–	(98)	–	–	–
Net identifiable assets and liabilities in statutory books	10,188	10	20	10	17
Fair value adjustments	–	–	–	–	–
Net identifiable assets and liabilities in fair values	10,188	10	20	10	17
Consideration, paid in cash	(10,188)	(10)	(44)	(13)	(17)
Cash (acquired)	**1,194**	**–**	**15**	**10**	**17**
Net cash outflow	**(8,994)**	**(10)**	**(29)**	**(3)**	**–**

The acquiree's net assets at the acquisition date (for companies acquired in 2007) (continued)

In thousands of Euros	Czech Real Estate Regions S.a.r.l.	2P, s.r.o.	VARENSKÁ OFFICE CENTER, a.s.	REZIDENCE UNHOŠŤ a.s.	GONDOMAR s.r.o.
Property, plant and equipment	–	–	4	–	–
Investment property	–	–	5,275	–	–
Provided loans	2,042	–	–	–	–
Investments	1,719	–	–	–	–
Trading property	–	9,730	–	2,315	–
Deferred tax assets	–	12	–	–	–
Trade and other receivables	–	1,339	371	63	–
Cash and cash equivalents	85	102	661	48	8
Trade and other payables	(1,001)	(1,163)	(2,172)	(630)	–
Other long-term payables	–	(840)	–	–	–
Interest bearing loans	(2,993)	(9,180)	(3,817)	(1,606)	–
Deferred tax	–	6	(10)	17	–
Net identifiable assets and liabilities in statutory books	(148)	6	312	207	8
Fair value adjustments	–	2,503	469	153	–
Net identifiable assets and liabilities in fair values	(148)	2,509	781	360	8
Consideration, paid in cash	(1,803)	(865)	(811)	(23)	(8)
Cash (acquired)	**85**	**102**	**661**	**48**	**8**
Net cash outflow	**(1,718)**	**(763)**	**(150)**	**25**	**–**

The acquiree's net assets at the acquisition date (for companies acquired in 2007) (continued)

In thousands of Euros	HARBINOIR s.r.o.	LEPORANO s.r.o.	POYNTON s.r.o.	ROBUREN s.r.o.	TALENTONE s.r.o.
Cash and cash equivalents	8	8	8	8	8
Net identifiable assets and liabilities in statutory books	8	8	8	8	8
Fair value adjustments	–	–	–	–	–
Net identifiable assets and liabilities in fair values	8	8	8	8	8
Consideration, paid in cash	(8)	(8)	(8)	(8)	(8)
Cash (acquired)	**8**	**8**	**8**	**8**	**8**
Net cash outflow	**–**	**–**	**–**	**–**	**–**

The acquiree's net assets at the acquisition date (for companies acquired in 2007) (continued)

In thousands of Euros	URBARIUM s.r.o.	VEPAMOS s.r.o. s.r.o.	LUNZIE a.s.	OPTISERVIS, spol. s r.o.	ECM Russia A.G.
Property, plant and equipment	–	–	–	10	–
Investment property	–	–	6,759	–	–
Intangible assets	–	–	–	1	–
Trading property	–	–	–	2	–
Income tax receivables	–	–	–	28	–
Trade and other receivables	–	–	–	293	–
Cash and cash equivalents	8	8	75	97	31
Trade and other payables	–	–	–	(231)	–
Interest bearing loans	–	–	(6,759)	–	–
Net identifiable assets and liabilities in statutory books	8	8	75	200	31
Fair value adjustments	–	–	249	–	–
Net identifiable assets and liabilities in fair values	8	8	324	200	31
Consideration, paid in cash	(8)	(8)	(324)	(1,597)	(31)
Cash (acquired)	**8**	**8**	**75**	**97**	**31**
Net cash outflow	**–**	**–**	**(249)**	**(1,500)**	**–**

The acquiree's contribution to the consolidated net profit in 2007 (for companies acquired in 2007)

Companies acquired in 2007	Net profit/(loss) contributed to consolidated profit in 2007 TEUR
CITY DECO s.r.o.	1,509
Palisády, s.r.o.	(195)
TORSAR a.s	(10)
NATIONAL BUSINESS CENTRE Ostrava a.s	201
NBC National s.r.o.	(6)
Ryazan Hold Company Ltd.	(16)
OOO "PROSPEKT"	(257)
China East Investment Limited	(172)
ECM Property Holding (Tianjin) Co Ltd.	(314)
Metropolis Holding China Limited	(78)
Metropolis Holding (Tianjin) Co., Ltd.	(109)
MOLE ONE LIMITED	(10)
ECM Poland A.G.	(15)
ECM China Beijing S.a.r.l	(7)
ECM POZNAŃ RESIDENCE sp. z .o. o.	2,239
Czech Real Estate Regions S.a.r.l.	(12)
2P, s.r.o.	122

Companies acquired in 2007	Net profit/(loss) contributed to consolidated profit in 2007 TEUR
VARENSKÁ OFFICE CENTER, a.s	(18)
REZIDENCE UNHOŠŤ a.s.	(2)
GONDOMAR s.r.o.	(2)
HARNINOIR s.r.o.	(2)
LEPORANO s.r.o.	(2)
POYNTON s.r.o.	(2)
ROBUREN s.r.o.	(2)
TALENTONE s.r.o.	(2)
URBARIUM s.r.o.	(2)
VEPAMOS s.r.o.	(2)
LUNZIE a.s.	2,816
OPTISERVIS, spol. s r.o	–
ECM Russia A.G.	–

The acquiree's revenue and net profit before acquisition date in 2007 (for companies acquired in 2007)

Companies acquired in 2007	The acquiree's revenue before acquisition date in 2007 In thousands of euros	The acquiree's net profit before acquisition date in 2007 In thousands of euros
CITY DECO s.r.o.	–	–
Palisády, s.r.o.	–	–
TORSAR a.s	–	(8)
NATIONAL BUSINESS CENTRE Ostrava a.s	30	(883)
NBC National s.r.o.	35	1
Ryazan Hold Company Ltd.	–	(5)
OOO "PROSPEKT"	–	(6)
China East Investment Limited	–	–
ECM Property Holding (Tianjin) Co Ltd.	–	–
Metropolis Holding China Limited	–	–
Metropolis Holding (Tianjin) Co., Ltd.	–	–
MOLE ONE LIMITED	–	–
ECM Poland A.G.	–	–
ECM China Beijing S.a.r.l	–	–
ECM POZNAŇ RESIDENCE sp. z .o. o.	–	–
Czech Real Estate Regions S.a.r.l.	–	(37)
2P, s.r.o.	223	2.306
VARENSKÁ OFFICE CENTER, a.s	292	576
REZIDENCE UNHOŠŤ a.s.	1	69
GONDOMAR s.r.o.	–	–
HARNINOIR s.r.o.	–	–
LEPORANO s.r.o.	–	–
POYNTON s.r.o.	–	–
ROBUREN s.r.o.	–	–
TALENTONE s.r.o.	–	–
URBARIUM s.r.o.	–	–
VEPAMOS s.r.o.	–	–
LUNZIE a.s.	–	–
OPTISERVIS, spol. s r.o	946	189
ECM Russia A.G.	–	–

The acquiree's net assets at the acquisition date (for companies acquired in 2006)

In thousands of Euros	ECM CITY POINT a.s.	ECM OFFICES LIBEŇ s.r.o.	ADARKON a.s.	EPOQUE HOTEL a.s.	ECM CITY EMPIRIA a.s.	EPOQUE - LANCASTER a.s.
Intangible fixed assets	1	–	–	1	1	–
Cash and cash equivalents	71	7	70	71	71	70
Trade payables	(1)	–	–	(1)	(1)	–
Net identifiable assets and liabilities	71	7	70	71	71	70
Net identifiable assets and liabilities in statutory books	(71)	(7)	(70)	(71)	(71)	(70)
Fair value adjustments	–	–	–	–	–	–
Net identifiable assets and liabilities in fair values	(71)	(7)	(70)	(71)	(71)	(70)
Cash (acquired)	**71**	**7**	**70**	**71**	**71**	**70**
Net cash outflow	**–**	**–**	**–**	**–**	**–**	**–**

The acquiree's net assets at the acquisition date (for companies acquired in 2006) (continued)

In thousands of Euros	ECM Facility a.s.	MV CENTRUM, a.s.	EMPIRIA BUILDING s.r.o.	OIK City Point Investment a.s.	CITY ELEMENT s.r.o.	ECM REGIONS CZ S. a r.l.
Property, plant and equipment	129	237	12	–	–	–
Investment property	–	51,984	–	17,119	–	–
Intangible assets	14	3	–	–	–	–
Provided loans	52	908	–	409	–	–
Investments	–	380	–	–	–	–
Trade and other receivables	1,520	1,741	–	1,876	2	–
Cash and cash equivalents	54	23	18	8	5	12
Trade and other payables	(1,188)	(2,766)	(38)	(371)	–	–
Other long term payables	–	(2)	–	(531)	–	–
Interest bearing loans	(238)	(47,123)	(10)	(15,843)	–	–
Provisions	–	(9)	–	–	–	–
Deferred tax	–	(1,731)	1	225	–	–
Net identifiable assets and liabilities in statutory books	343	3,645	(17)	2,892	7	12
Fair value adjustments	–	21,707	–	7,422	–	–
Net identifiable assets and liabilities in fair values	343	25,352	(17)	10,314	7	12
Consideration, paid in cash	(1,000)	(25,414)	(3)	(10,233)	(7)	(19)
Cash (acquired)	**54**	**23**	**18**	**8**	**5**	**12**
Net cash outflow	**(946)**	**(25,391)**	**15**	**(10,225)**	**(2)**	**(7)**

The acquiree's net assets at the acquisition date (for companies acquired in 2006) (continued)

In thousands of Euros	GRASLON a.s.	SAZERAC a.s.	ECM Russia o.o.o.	Ryazan Investors Company Ltd	Ryazan Shopping Mall Ltd.
Property, plant and equipment	344	–	41	–	–
Intangible assets	540	–	–	–	–
Trading property	–	–	–	–	–
Other investments	–	–	–	222	–
Provided loans	–	–	–	257	–
Deferred tax assets	–	–	85	–	–
Trade and other receivables	72	1	262	–	2,151
Cash and cash equivalents	64	64	–	1	2
Trade and other payables	(8)	(2)	(65)	(217)	(2,092)
Interest bearing loans	(407)	–	(640)	(257)	(52)
Net identifiable assets and liabilities in statutory books	605	63	(311)	6	9
Fair value adjustments	–	–	–	–	–
Net identifiable assets and liabilities in fair values	605	63	(311)	6	9
Consideration, paid in cash	(605)	(397)	(9)	(17)	(17)
Cash (acquired)	**64**	**64**	**–**	**1**	**2**
Net cash outflow	**(541)**	**(333)**	**(9)**	**(16)**	**(15)**

The acquiree's contribution to the consolidated net profit in 2006 (for companies acquired in 2006)

Companies acquired in 2006	Net profit/(loss) contributed to consolidated profit in 2006 TEUR
ECM CITY POINT a.s	(753)
ECM OFFICES LIBEŇ s.r.o	1,154
ADARKON a.s	(11)
EPOQUE HOTEL a.s	(27)
EMPIRIA BUILDING s.r.o.	2
ECM CITY EMPIRIA a.s	(2,210)
EPOQUE - LANCASTER a.s	(38)
ECM Facility a.s	74
ECM REGIONS CZ S. a r.l	(743)
OIK City Point Investment a.s	329
MV CENTRUM, a.s.	(465)
CITY ELEMENT s.r.o	(6)
GRASLON a.s	(9)
SAZERAC a.s	(11)
Ryazan Shopping Mall Ltd.	(136)
Ryazan Investors company Ltd	(21)
ECM Russia, o.o.o	–

If the acquisitions had occurred on 1 January 2006, the Group revenue and net profit would not significantly differ from the values included in the consolidated financial statements. This is due to the fact that the acquired companies did not show any significant activity prior to their acquisition by the Group.

3.2. Segment Reporting

3.2.1. Business Segments
The Group comprises the following main business segments:

- Development
  - Activities in this segment comprise realization of specific development projects.

- Business Operations
  - Activities in this segment consist of providing the rental of immovables (mainly multi-purpose office and retail buildings) and related services.

- Hotel Operations
  - Companies within the Group operate three hotels: Courtyard by Marriott Prague Airport, Marriott Executive Apartments and Courtyard by Marriott Pilsen. Based on market development and internal analysis, the Group created a provision for onerous contracts within this segment as at 31 December 2007 in amount TEUR 1,000.

3.2.2. Geographical Segments
The running business and development segments are managed on a worldwide basis, but operate in two principal geographical areas, Europe and Asia. In Europe the business facilities and sales offices are operated in Russia, Cyprus, the Netherlands, Luxembourg, the Czech Republic and Poland.

The Group acquired new companies in Asia, which operate in China and Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Business segments

	Hotel Operations		Business Operations		Development		Eliminations		Consolidation	
In thousands of Euros	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
External revenues (1)	6,089	8,394	7,117	1,301	15,779	1,075	–	–	28,985	10,770
Inter-segment revenue	–	–	384	283	1,353	5,637	(1,737)	(5,920)	–	–
Total segment revenue	6,089	8,394	7,501	1,584	17,132	6,712	(1,737)	(5,920)	28,985	10,770
Segment result	(1,632)	3,702	37,330	78	(10,146)	14,802	–	–	25,552	18,582
Results from operating activities	(1,762)	3,691	42,505	(1,459)	(11,200)	7,142	–	–	29,544	9,374
Share of the profit in associates and joint ventures	–	–	–	–	–	–	–	–	12	373
Net finance costs	(71)	3	2,138	1,486	(5,745)	13,603	–	–	(3,679)	15,093
Income tax expense	201	8	(7,314)	51	6,800	(6,044)	–	–	(313)	(5,885)
Profit for the period									**25,564**	**18,955**

(1) External revenues consist of gross rental income, service income, service charge income, gain on disposal of investment property, proceeds from the sale of financial investment in associates and proceeds from the sale of trading property.

	Hotel Operations		Business Operations		Development		Consolidation	
In thousands of Euros	2007	2006	2007	2006	2007	2006	2007	2006
Segment assets	3,883	753	254,636	154,235	304,447	178,107	562,966	333,095
Segment liabilities	3,668	744	157,533	100,787	253,809	113,880	415,010	215,411
Segment net assets	–	–	–	–	–	–	147,956	117,684
Capital expenditure	–	–	61,087	100,560	18,473	31,545	79,560	132,105
Depreciation	–	–	174	83	519	566	693	649
Amortisation of intangible assets	–	–	–	23	492	17	492	40

Geographical segments

	Europe		Asia		Consolidated	
In thousands of Euros	2007	2006	2007	2006	2007	2006
Revenue from external customers	28,985	10,770	–	–	28,985	10,770
Segment assets	525,126	333,095	37,840	–	562,966	333,095
Capital expenditure	79,560	132,105	–	–	79,560	132,105

3.3. Gross Rental and Service Income

Gross rental income totals TEUR 7,054 (2006 – TEUR 3,964), which consists of income from the rental of offices, land and garages. The income is mainly generated by ECM OFFICES LIBEŇ s.r.o., ECM CITY EMPIRIA a.s., ECM Finance, a.s., ECM Real Estate Investments, k.s. ECM CITY POINT s.r.o. and TABULA MAIOR, a.s.

Service income totals TEUR 12,285 (2006 – TEUR 4,351), which consists of income from facility management activities provided in connection with rental activity and services provided in the segment Hotel Operations. The income is mainly generated by ECM Finance a.s., ECM Hotel Operations EUROPORT s.r.o., ECM Real Estate Investments, k.s. and ECM Facility a.s.

3.4. Net Service Charge Income and Property Operating Expenses

3.4.1. Net service Charge Income

In thousands of Euros	2007	2006
Service charge income	1,681	32
Service charge expenses	(1,339)	(194)
Total	**342**	**(162)**

Service charge income and expenses are connected with rental activities.

3.4.2. Property Operating Expenses

In thousands of Euros	2007	2006
Repairs and maintenance	(1,017)	(590)
Depreciation of finance lease assets	(387)	(331)
Energy	(118)	(320)
Depreciation of tangible fixed assets	(353)	(155)
Other expenses	(2,776)	(475)
Total property operating expenses	**(4,651)**	**(1,871)**

Increase in other expenses relates mainly to rent of the hotel Courtyard by Marriott Prague Airport operated by ECM Hotel Operations EUROPORT s.r.o. in amount TEUR 1,930.

3.5. Net Valuation Gain on Investment Property

3.5.1. Valuation Gains on Investment Property

In thousands of Euros	2007	2006
Entity description – Project description		
CITY PROJECT	1,758	7,866
CITY TOWER s.r.o.	37,289	–
ECM OFFICE LIBEN s.r.o.	743	1,428
RYAZAN SHOPPING MALL Ltd.	11,204	–
GRASLON a.s.	11,075	–
ECM POZNAŇ REZIDENCE sp. z .o.o	2,821	–
LUNZIE a.s.	3,485	–
REZIDENCE UNHOSŤ a.s.	25	155
ECM Byty s.r.o.	–	117
VARENSKA OFFICE CENTER, a.s.	–	1,468
Total	**68,400**	**11,034**

Valuation gains on investment property are also influenced by fluctuations in FX rate for the companies with functional currencies other than EUR. The losses from foreign exchange match foreign exchange gains recorded in financial income (refer to Note 3.12).

3.5.2. Valuation Losses on Investment Property

In thousands of Euros	2007	2006
Entity description – Project description		
VARENSKA OFFICE CENTER, a.s.	(1,314)	–
ECM Byty s.r.o.	(490)	–
NATIONAL BUSINESS CENTRE OSTRAVA a.s. & NBC National s.r.o.	(274)	–
Palisády, s.r.o.	(220)	–
ECM CITY EMPIRIA a.s. & Empiria Building s.r.o.	(1,878)	(2,875)
OIK City Point Investment a.s.	(135)	(66)
	(4,311)	**(2,941)**
Net valuation gains and losses on investment property	**64,089**	**8,093**

3.6. Net Result on Disposal of Investment Property

In thousands of Euros	2007	2006
Proceeds from sale of investment property		
Entity description – project description		
OIK City Point Investment a.s. – CITY POINT	30,878	–
ECM Byty s.r.o. – Residence Letnany	1,246	–
TRADITRADE, s.r.o. – CITY ARENA	–	15,937
TABULA MINOR, a.s.	–	71
	32,124	16,008
Carrying value of investment property sold		
Entity description – project description		
OIK City Point Investment a.s. – CITY POINT	(27,831)	–
ECM Byty s.r.o. – Residence Letnany	(330)	–
TRADITRADE, s.r.o. – CITY ARENA	–	(15,365)
TABULA MINOR, a.s.	–	(762)
	(28,161)	**(16,127)**
TOTAL	**3,963**	**(119)**

3.6.1. OIK City Point Investment a.s. – CITY POINT

The ownership interest transfer agreement on the transfer of 95% ownership in OIK City Point Investment a.s. was signed in March 2007. The shares of the subsidiary OIK City Point Investment a.s. were sold for TEUR 11,833 in cash, and a gain of TEUR 3,047 was realised.

Effect of the disposal on investment property of the Group (OIK City Point Investment a.s.)

In thousands of Euros	2007
Carrying value of investment property sold	27,101
Cash and cash equivalents	539
Trade and other receivables	191
Carrying value of investment property sold	**27,831**
Trade payables and other liabilities	(19,045)
Net identifiable assets	**8,786**
Sales price	11,833
Net gain on disposal	**3,047**

3.6.2. Byty s.r.o. – Residence Letňany

Agreement on the sale of part of the land and buildings in ECM BYTY s.r.o. was signed on 13 December 2007. The investment property was sold for TEUR 1,246 in cash and a gain of TEUR 916 was realised.

Effect of the disposal on investment property of the Group (ECM BYTY s.r.o.)

In thousands of Euros	2007
Sales price	1,246
Carrying value of investment property sold	(330)
Net gain on disposal	**916**

3.6.3. TRADITRADE, s.r.o. – CITY ARENA

The ownership interest transfer agreement on the transfer of 100% ownership in TRADITRADE, s.r.o. was signed in May 2006. Total cash in flow was TEUR 5,728. The shares of the subsidiary TRADITRADE, s.r.o. were sold for TEUR 2,858 in cash, and a post-tax gain of TEUR 572 was realised. The new owner of TRADITRADE, s.r.o. paid TEUR 3,118 of the payables of TRADITRADE, s.r.o. to the companies of ECM Group.

Effect of the disposal on investment property of the Group (TRADITRADE, s.r.o.)

In thousands of Euros	2006
Carrying value of investment property sold	7,892
Cash and cash equivalents	7,462
Trade and other receivables	11
Carrying value of investment property sold	**15,365**
Trade payables and other liabilities	(13,079)
Net identifiable assets	**2,286**
Sales price	2,858
Net gain on disposal	**572**

3.6.4. TABULA MINOR, a.s.

Agreement on the sale of half of the land in TABULA MINOR, a.s. was signed in March 2006. The land was sold for TEUR 71 in cash and a loss of TEUR 691 was realised.

Effect of the disposal on investment property of the Group (TABULA MINOR, a.s.)

In thousands of Euros	2006
Sales price	71
Carrying value of investment property sold	(762)
Net loss on disposal	(691)

3.7. Net Result on Disposal of the Financial Investment in Associates

In thousands of Euros	2007
Proceeds from sale of financial investment in associates	
Entity description – project description	
ECM Airport Center a.s.	2,971
	2,971
Carrying value of financial investment in associates	
Entity description – project description	
ECM Airport Center a.s.	(3,185)
	(3,185)
Net profit (loss) on disposal of trading property	**(214)**

3.7.1. ECM Airport Center a.s.

The ownership interest transfer agreement on the transfer of a 99% stake held by the Group in ECM Airport Center a.s. was signed on 18 May 2005. The ownership transfer was to be completed in two stages, each stage involving a 49.5% stake. The first stage of the transaction (Closing I) was completed as of 31 December 2006.

The second stage was completed after the finalisation of development work, the approval of the property for use, and possession of the premises by tenants. The sale process was finalized on 7 August 2007.

3.8. Net Result on Disposal of the Trading Property

In thousands of Euros	2007	2006
Proceeds from sale of trading property		
Entity description – project description		
ECM REAL ESTATE INVESTMENTS A.G. – Chinese projects	1,735	
ECM Real Estate Investments, k.s. – Airport Center Project	1,027	–
ECM Finance a.s. – ECE Project	–	2,424
	2,762	**2,424**
Carrying value of sold trading property		
Entity description – project description		
ECM REAL ESTATE INVESTMENTS A.G. – Chinese projects	(1,574)	
ECM Real Estate Investments, k.s. – Airport Center Project	(874)	–
ECM Finance a.s. – ECE Project	–	(2,162)
	(2,448)	**(2,162)**
Net profit (loss) on disposal of trading property	**314**	**262**

3.8.1. ECM REAL INVESTMENTS A.G. – Chinese Projects

Sale of trading property Chinese projects Globe Plaza and Metropolis Tower relates to the ownership transfer of a 40% stake held by the Group in China East Investment Limited (including its subsidiary ECM Property Holding (Tianjin) Co Ltd.) and Metropolis Holding China Limited (including its subsidiary Metropolis Holding (Tianjin) Co., Ltd.) to Nordevo. The Company sold the respective part of trading property to Nordevo for TEUR 1,735 and a profit of TEUR 161 was realised. For further information refer to Note 3.1.3 above.

3.8.2. ECM Real Estate Investments, k.s.

Sale of trading property Airport Center Project relates to the second stage of the ownership transfer of a stake held by the Group in ECM Airport Center a.s. that was completed following the finalisation of development work and the subject property is approved for use and tenants take possession of the premises. In June 2007 the project was completed and sold for TEUR 1,027 and a profit of TEUR 153 was realised. For further information refer to Note 3.7.1 above.

3.8.3. ECM Finance a.s. – ECE Project

Agreements for development of Pankrac Shopping Center and the sale of related property to Pankrác Shopping Center k.s. and ECE Projektmanagement Praha s.r.o. were signed in June 2001. The land was sold in 2003. In April 2006 the project was completed and sold for TEUR 2,424 and a profit of TEUR 262 was realised.

3.9. Administrative Expenses

In thousands of Euros	2007	2006
Wages and salaries	(5,650)	(1,728)
Advertising expenses	(1,262)	(921)
Audit, tax, advisory services	(1,359)	(985)
Change in provision (Note 3.27)	(234)	(774)
Social security contributions	(1,708)	(603)
Material consumption	(1,002)	(574)
Legal services	(1,646)	(55)
Amortisation of intangible fixed assets	(80)	(40)
Other administrative expenses	(7,490)	(2,442)
Total	**(20,431)**	**(8,122)**

The increase in salaries is related to acquisitions of subsidiaries that have more employees and the expanding activities of the Group, mainly in connection with the Hotel Operations segment.

Other administrative expenses comprise travel expenses, service fees, telecommunication fees and representation expenses. Increase is caused by expanding activities in the Hotel operations segment.

3.10. Other Income

In thousands of Euros	Note	2007	2006
Income on sale of MV Centrum a.s.	3.10.1	–	2,902
Income on sale of 50% share in 2P s.r.o.	3.10.2	–	845
Income on sale of ECM Real Estate Development Prague, s.r.o	3.10.3	–	154
Penalties		–	3
Ceded receivable		603	–
Other		184	719
Total		**787**	**4,623**

3.10.1. MV Centrum, a.s.

The ownership interest transfer agreement on the transfer of a 100% stake in MV CENTRUM, a.s. was signed on 15 July 2004. The parties agreed on the preliminary purchase price for the shares and adjustment in 2006. The ECM Group paid TEUR 453 in cash in 2004. The price was adjusted in 2006 and the additional TEUR 2,902 was received by ECM Group.

ECM Group purchased back 100% share in MV Centrum, a.s. in 2006. For further detail refer to Note 3.1.3.

3.10.2. 2P, s.r.o.

In November 2005, the Group sold 32.5% of its shares in the subsidiary 2P, s.r.o. to Kanebo Investments S.A. The shares of the subsidiary 2P, s.r.o. were sold for TEUR 4 in cash, and a post-tax gain of TEUR 10 was realised.

In March 2006, the Group acquired back 32.5% of its shares in the subsidiary from Kanebo Investments S.A. and owned 100% of 2P, s.r.o. In March 2006, an agreement on transfer of the 100% ownership interest in 2P, s.r.o. from the Company to Czech Real Estate Regions S.a.r.l. was signed. 100% of the issued capital of Czech Real Estate Regions S.a.r.l. is owned by ECM Group.

The shares of 2P, s.r.o. were sold for TEUR 860 in cash, and a post-tax gain of TEUR 845 was realised. Total price in agreement on transfer of shares before consolidation adjustments amounted to TEUR 1,739.

3.10.3. ECM Real Estate Development Prague s.r.o.

On 30 June 2006, an agreement on the transfer of the 100% ownership interest in ECM Real Estate Development Prague s.r.o. to ECM REAL ESTATE INVESTMENTS II A.G. was signed. The share in the subsidiary was sold for TEUR 1,432 in cash, and a post-tax gain of TEUR 154 was realised.

Effect of the disposal on accounts of the Group (ECM Real Estate Development Prague, s.r.o.)

In thousands of Euros	2006
Provided loans	972
Cash and cash equivalents	1
Trade and other receivables	700
Trade payables and other liabilities	(395)
	1,278
Sales price	1,432
	1,432
Net identifiable assets and liabilities	**(1,278)**
Net gain on disposal	**154**

3.11. Other Expenses

In thousands of Euros	2007	2006
Penalties	(753)	(686)
Change in provisions (Note 3.27) (2)	(1,653)	(93)
Taxes	(45)	(36)
Receivable written off	(176)	(13)
Compensations (1)	(29,398)	–
Intangible assets written off	(439)	–
Goodwill written off	(325)	–
Other	(1,205)	(817)
TOTAL	**(33,994)**	**(1,645)**

(1) In 2006 the Company entered in negotiations with ECE European City Estates A.G. to cancel future share purchase agreements on sale of shares of CITY TOWER s.r.o. The cancellation fee was paid in the amount of TEUR 27,546 as at 20 December 2007. For further information refer to Note 3.20. The Company believes that the transaction will generate profit after this compensation.

Based on the decision of the Company's management, a contract stipulating the future sale of a 95% share of ECM OFFICES LIBEŇ, a.s., concluded in November 2006, was cancelled on 27 June 2007, as a result of a change in the Company's strategy. As a consequence of the withdrawal from contract, the Company paid a contractual penalty of TEUR 1,852. The Company paid TEUR 1,086 as at 30 June 2007 and TEUR 766 on 27 July 2007.

(2) Based on market development and internal analysis, the Group created a provision for onerous contracts within the Hotel operations segment of TEUR 1,000 as at 31 December 2007.

3.12. Net Financial Income/expense

In thousands of Euros	2007	2006
Gain from cession of loan payable to BOHL MEZZANINE INVESTMENT S.A.	–	14,373
Net foreign exchange gain	4,660	4,840
Revaluation of financial derivatives	3,582	963
Bank interest income	486	125
Other financial income	550	175
Financial income	**9,278**	**20,476**
Interest expense related to non-bank loans	(3,667)	(1,329)
Bank interest expense	(472)	(1,299)
Expenses from convertible debenture loan	(4,826)	(1,148)
Expenses related to other bonds	(1,200)	–
Interest charges related to financial leases	(763)	(688)
Other financial expenses	(2,029)	(919)
Financial expenses	**(12,957)**	**(5,383)**
Net financial (expense)/income	**(3,679)**	**15,093**

Some of the Group companies had loan payables to BOHL MEZZANINE INVESTMENT S.A. ("Bohl") as at 31 December 2005. Based on the agreement between Bohl and TELOR INTERNATIONAL LIMITED ("TELOR") of 15 June 2006, Bohl's receivables from the Group companies amounting to TEUR 28,063 were sold to TELOR for their nominal value. Bohl and TELOR are related parties.

Based on the agreement between TELOR and ECM REAL ESTATE INVESTMENTS A.G. of 30 June 2006, TELOR's receivables from the Group companies in the nominal value of TEUR 28,063 were sold to ECM REAL ESTATE INVESTMENTS A.G. The receivables were sold for TEUR 13,768.

As a result of this transaction, the Group realised a profit before tax of TEUR 14,295 in 2006. This profit is presented under net financial income.

3.13. Taxation

3.13.1. Income Tax Expense Recognised in the Income Statement

In thousands of Euros	2007	2006
Current tax expense		
Current year	(1,284)	(1,769)
Total	**(1,284)**	**(1,769)**
Deferred tax expense		
New and reversed temporary differences	(10,355)	(5,641)
Effect of changes in tax rates	3,886	–
Effect of changes in foreign currency rates	(53)	(229)
Benefit of tax losses recognised	7,493	1,754
Total	**971**	**(4,116)**
Total income tax expense in income statement	**(313)**	**(5,885)**

3.13.2. Reconciliation of Effective Tax Rate

In thousands of Euros	2007	2007	2006	2006
Profit before tax		**25,877**		**24,840**
Income tax using the domestic corporation tax rate	24.00%	(6,210)	24.00%	(5,962)
Non-deductible expenses		(5,471)		(1,527)
Tax exempt revenues		4,757		621
Effect of changes in deferred tax rate (1)		3,886		–
Effect of tax losses included in the deferred tax for the first time		2,725		983
Effect of tax losses not included in the deferred tax		–		–
Total		**(313)**		**(5,885)**

The Group did not generate any significant taxable profits in 2006 and 2007. In 2006, the recorded income tax expense related primarily to the change in deferred tax.

(1) New tax rates were enacted in the Czech Republic in 2007 for following periods in which the temporary differences are likely to reverse (21% in 2008, 20% in 2009 and 19% in 2010 and following years).

3.13.3. Current Tax Assets and Liabilities

The current tax asset of TEUR 165 (2006 – TEUR 17) represents the amount of income tax recoverable in respect of current and prior periods, i.e., the amount by which the income tax receivable exceeds payments.

3.13.4. Deferred Tax Assets and Liabilities

The deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of Euros	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Investment property	1,488	670	(25,023)	(21,654)	(23,535)	(20,984)
Trading property – inventory	–	2,735	(73)	–	(73)	2,735
Finance lease	387	394	–	–	387	394
Property, plant and equipment	–	–	–	(20)	–	(20)
Interest-bearing loans and borrowings	–	–	(2,808)	(3,260)	(2,808)	(3,260)
Trade receivables	176	177	(1,237)	–	(1,061)	177
Trade payables	192	–	–	–	192	–
Provisions	210	–	–	–	210	–
Bonds	447	–	(955)	–	(508)	–
Assets and liabilities held for sale	15	–	(674)	–	(659)	–
Other items	–	277	–	–	–	277
Tax losses carried-forward	11,630	2,516	(1,812)	–	9,818	2,516
Tax assets/(liabilities)	14,546	6,769	(32,582)	(24,934)	(18,036)	(18,165)
Unrecognised tax losses	–	–	–	–	–	–
Set-off of tax	–	–	–	–	–	–
Tax assets/liabilities held for sale	15	–	(674)	–	(659)	–
Net tax assets/(liabilities)	**14,531**	**6,769**	**(31,908)**	**(24,934)**	**(17,377)**	**(18,165)**

3.13.5. Movement in Temporary Differences during the Year

In thousands of Euros	Balance at 1. 1. 2006	Recognised in income	Change in deferred tax as a result of acquisitions	Balance at 31. 12. 2006
Investment property	(8,064)	(2,760)	(10,160)	(20,984)
Impairment of trading property – inventory	2,490	245	–	2,735
Finance lease	302	92	–	394
Property, plant and equipment	(38)	18	–	(20)
Interest-bearing loans and borrowings	182	(3,442)	–	(3,260)
Trade receivables	185	(8)	–	177
Other items	(22)	214	85	277
Tax value of loss carry-forwards – recognised	762	1,754	–	2,516
Total	**(4,203)**	**(3,887)**	**(10,075)**	**(18,165)**

In thousands of Euros	Balance at 1. 1. 2007	Recognised in income	Change in deferred tax as a result of acquisitions	Change in deferred tax as a result of disposals	Recognised in share premium	Balance at 31. 12. 2007
Investment property	(20,984)	(3,568)	(1,383)	2,400	–	(23,535)
Impairment of trading property – inventory	2,735	(2,772)	(36)	–	–	(73)
Finance lease	394	(7)	–	–	–	387
Property, plant and equipment	(20)	20	–	–	–	–
Interest-bearing loans and borrowings	(3,260)	452	–	–	–	(2,808)
Trade receivables	177	(1,439)	18	–	183	(1,061)
Trade payables	–	192	–	–		192
Provisions	–	210	–	–	–	210
Bonds	–	(508)	–	–	–	(508)
Assets ad liabilities held for sale	–	1	(660)	–	–	(659)
Other items	277	(285)	–	(85)	93	–
Tax value of loss carry-forwards – recognised	2,516	7,302	–	–	–	9,818
Total	**(18,165)**	**(402)**	**(2,061)**	**2,315**	**276**	**(18,037)**

The amount recognised in income includes new and reversed temporary differences (TEUR (6,469)) and the benefit of tax losses recognised (TEUR 7,493).

3.14. Investment Property

In thousands of Euros	CITY PROJECT	VARENSKA OFFICE CENTER, a.s.	ECM CITY EMPIRIA a.s. and Empiria Building s.r.o.	OIK City Point Investment a.s.	ECM OFFICES LIBEŇ, s.r.o.	ECM Byty, s.r.o.	REZIDENCE UNHOŠŤ, a.s.
Balance at 1. 1. 2006	**65,000**	–	–	–	–	–	–
Acquisitions	6,991	275	143	–	9,633		–
Transfers to/from trading property	321	–	–	–	–	–	–
Transfers from property, plant and equipment	–	–	12	–	–	1,040	1,231
Acquisitions through business combinations	–	2,517	80,424	26,758	–	–	–
Fair value adjustment	7,866	1,468	(2,875)	(66)	1,428	117	155
Effect of movement in foreign exchange	3,902	130	2,347	810	31	3	6
Disposals	(8,728)	–	–	(2)	–	–	–
Balance at 31. 12. 2006	**75,352**	**4,390**	**80,051**	**27,500**	**11,092**	**1,160**	**1,392**
Balance at 1. 1. 2007	**75,352**	**4,390**	**80,051**	**27,500**	**11,092**	**1,160**	**1,392**
Acquisitions	3,868	4,916	181	–	5	457	498
Transfers to/from trading property	–	69	–	–	–	–	(1,901)
Transfers to/from property, plant and equipment	–	–	(12)	–	–	–	–
Transfers from trade and other receivables	–	–	–	–	–	–	–
Other transfers	(42)	–	–	–	(821)	–	–
Acquisitions through business combinations	85	5,868	–	–	–	–	–
Fair value adjustment	1,758	(1,314)	(1,878)	(135)	743	(490)	25
Effect in movement in foreign exchange rate	2,714	273	2,567	(264)	362	23	(14)
Disposals	(337)	–	–	–	–	–	–
Disposals out of Group	–	–	–	(27,101)	–	(330)	–
Balance at 31. 12. 2007	**83,398**	**14,202**	**80,909**	–	**11,381**	**820**	–

In thousands of Euros	CITY TOWER s.r.o.	Ryazan Shopping Mall Ltd.	NATIONAL BUSINESS CENTRE Ostrava a.s. + NBC National s.r.o.	GRASLON a.s.	Palisady, s.r.o.	ECM POZNAŇ RESIDENCE sp. z o.o.	LUNZIE a.s.	Total
Balance at 1. 1. 2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65,000**
Acquisitions	–	–	–	–	–	–	–	17,042
Transfers to/from trading property	–	–	–	–	–	–	–	321
Transfers from property, plant and equipment	–	–	–	–	–	–	–	2,283
Acquisitions through business combinations	–	–	–	–	–	–	–	109,699
Fair value adjustment	–	–	–	–	–	–	–	8,093
Effect of movement in foreign exchange	–	–	–	–	–	–	–	7,229
Disposals	–	–	–	–	–	–	–	(8,730)
Balance at 31. 12. 2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**200,937**
Balance at 1. 1. 2007	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**200,937**
Acquisitions	–	1,607	197	3,806	234	6,902	59	22,730
Transfers to/from trading property	84,069	423	501	54	–	–	–	83,215
Transfers to/from property, plant and equipment	–	–	–	–	–	–	–	(12)
Transfers from trade and other receivables	–	–	–	–	–	–	–	–
Other transfers	–	1,916	–	–	821	–	42	1,916
Acquisitions through business combinations	–	–	5,894	–	–	–	7,060	18,907
Fair value adjustment	37,289	11,204	(274)	11,075	(220)	2,821	3,485	64,089
Effect in movement in foreign exchange rate	5,222	652	483	643	35	418	155	13,269
Disposals	–	–	–	–	–	–	–	(337)
Disposals out of Group	–	–	–	–	–	–	–	(27,101)
Balance at 31. 12. 2007	**126,580**	**15,802**	**6,801**	**15,578**	**870**	**10,141**	**10,801**	**377,283**

Investment property comprises advances paid to suppliers of TEUR 146 (2006 – TEUR 607).

Acquisitions through business combinations represent purchases of investment property as part of the acquisition of subsidiaries.

Disposals out of the Group in 2007 included in the above table represent the disposal of investment property as a result of the sale of OIK City Point Investment a.s. (for more details refer to Note 3.6.1.) and the sale of investment property from ECM Byty, s.r.o. (for more detail refer to Note 3.6.2).

Disposals in 2006 included in the above table represent the disposals of investment property as a result of the sale of TRADITRADE, s.r.o. (for more details refer to Note 3.6.3) and sale of investment property from TABULA MINOR, a.s. (for more details refer to Note 3.6.4).

REZIDENCE UNHOŠŤ s.r.o. obtained a Construction permit and started with realization of a residential project. As a result REZIDENCE UNHOŠŤ s.r.o. was transferred to Trading property (for more details refer to Note 3.20.)

Company	Project	Description	Location (City, State)	Estimated total rentable/ saleable space (sq m)
	CITY	Multi-purpose development scheme (see a separate description below) in Prague 4/Pankrac district	Prague, Czech Republic	160,956
VARENSKA OFFICE CENTER, a.s.	VARENSKA OFFICE CENTER	Office building known as small and large building – include office building, storage, circulation areas and lobby	Ostrava, Czech Republic	13,186
ECM OFFICES LIBEŇ s.r.o.	CCS HQ Building	Multi-purpose office and retail building, currently used for generating of rental income	Prague, Czech Republic	5,638
ECM Byty s.r.o.	RESIDENCE LETNANY	Residential project	Prague, Czech Republic	4,458
ECM CITY EMPIRIA a.s.	CITY EMPIRIA	Multi-purpose office and retail building, currently used for generating of rental income	Prague, Czech Republic	23,863
CITY TOWER, s.r.o.	CITY TOWER	Office building with retail, storage, parking, and restaurant facilities	Prague, Czech Republic	44,951
National Business Centre Ostrava a.s. and NBC National s.r.o.	PALACE CENTER	Multi-purpose project – 161 hotel rooms, offices, retail facilities	Ostrava, Czech Republic	6,408
Ryazan Shopping Mall Ltd.	RYAZAN SHOPPING CENTER	Multi-purpose retail and office building project	Ryazan, Russia	56,339
GRASLON s.r.o.	BREZNICKA CENTER ZLIN	Retail center	Zlin, Czech Republic	31,437
Palisády, a.s.	PALISADY	Residential project	Prague, Czech Republic	3,892
ECM POZNAŇ RESIDENCE sp. z o.o.	POZNAN	Residential project	Poznan, Poland	55,000
LUNZIE a.s.	PARK VIEW II	Residential project	Prague, Czech Republic	40,000

Detailed description of CITY project

CITY PARKVIEW s.r.o.	CITY COURT	Office building with kitchen, canteen, storage and parking	Czech Republic	18,703
EPOQUE HOTEL a.s. and EPOQUE - LANCASTER a.s.	CITY EPOQUE	Consists of 2 projects: EPOQUE RESIDENTIAL and EPOQUE HOTEL: EPOQUE RESIDENTIAL – 170 apartments on 30 floors, 326 basement parking places, complementary services. EPOQUE HOTEL – 320 hotel rooms on 22 floors, 4 basement floors with parking places, infrastructure, convention facilities	Czech Republic	19,805
CITY DECO s.r.o.	CITY DECO	Multi-purpose project with offices and retail	Czech Republic	27,189
TABULA MAIOR, a.s.	CITY FORUM	Congress centre project	Czech Republic	
CITY ELEMENT s.r.o.	CITY ELEMENT	Office building project	Czech Republic	
TABULA MINOR, a.s.	EMPIRIA IV	Residential building with parking lots and retail units where the existing garage building is located, currently in the acquisition phase	Czech Republic	36,400

3.15. Property, Plant and Equipment

In thousands of Euros	Land and buildings	Plant and equipment	Under construction	Advance payments	Other	Finance leases	Total
Cost							
Balance at 1. 1. 2006	1,981	1,867	1,557	1,036	128	12,368	**18,937**
Acquisitions through business combinations	40	514	347	1	–	60	**962**
Other acquisitions	745	245	5,802	250	–	–	**7,042**
Transfer to investment property	(1,419)	(12)	(675)	(177)	–	–	**(2,283)**
Transfer to trading property	–	–	(4,575)	(218)	–	(157)	**(4,950)**
Disposals	(1,087)	(197)	(443)	(766)	(43)	(149)	**(2,685)**
Effect of movements in foreign exchange	55	106	71	15	5	1,730	**1,982**
Balance at 31. 12. 2006	**315**	**2,523**	**2,084**	**141**	**90**	**13,852**	**19,005**
Balance at 1. 1. 2007	315	2,523	2,084	141	90	13,852	**19,005**
Acquisitions through business combinations	–	44	7	–	–	–	**51**
Other acquisitions	941	190	627	15	–	–	**1,773**
Transfer to/from investment property	14	–	–	–	–	–	**14**
Disposals	(38)	(482)	(2,386)	–	–	–	**(2,906)**
Effect of movements in foreign exchange	49	70	(11)	5	3	(133)	**(17)**
Balance at 31. 12. 2007	**1,281**	**2,345**	**321**	**161**	**93**	**13,719**	**17,920**
Accumulated depreciation and impairment losses							
Balance at 1. 1. 2006	(1,119)	(1,505)	–	–	–	(1,902)	**(4,526)**
Acquisitions through business combinations	(1)	(197)	–	–	–	–	(198)
Depreciation charge for the year (649)		(8)	(300)	–	–	–	**(341)**
Transfer to intangible assets	–	14	–	–	–	–	**14**
Disposals	1,087	176	–	–	–	–	**1,263**
Effect of movements in foreign exchange	(3)	(71)	–	–	–	–	**(74)**
Balance at 31. 12. 2006	**(44)**	**(1,883)**	**–**	**–**	**–**	**(2,243)**	**(4,170)**
Balance at 1. 1. 2007	(44)	(1,883)	–	–	–	(2,243)	**(4,170)**
Acquisitions through business combinations		(37)	–	–	–		**(37)**
Depreciation charge for the year	(46)	(241)	–	–	–	(406)	**(693)**
Transfer to/from investment property	–	2	–	–	–	–	**2**
Disposals	24	426	–	–	–	–	**450**
Effect of movements in foreign exchange	(3)	(55)	–	–	–	553	**495**
Balance at 31. 12. 2007	**(69)**	**(1,788)**	**–**	**–**	**–**	**(2,096)**	**(3,953)**
Carrying amounts							
At 1. 1. 2006	862	362	1,557	1,036	128	10,466	**14,411**
At 31. 12. 2006	271	640	2,084	141	90	11,609	**14,835**
At 1. 1. 2007	271	640	2,084	141	90	11,609	**14,835**
At 31. 12. 2007	1,212	557	321	161	93	11,623	**13,967**

Land and buildings

In thousands of Euros	31. 12. 2007	31. 12. 2006
ECM Real Estate Investments, k.s.	156	157
ECM Finance a.s.	58	57
ECM Facility a.s.	967	39
ADARKON a.s.	18	18
EMPIRIA BUILDING s.r.o.	13	–
Total	**1,212**	**271**

Plant and equipment

In thousands of Euros	31. 12. 2007	31. 12. 2006
TABULA MAIOR, a.s.	154	215
MV CENTRUM a.s.	–	223
ECM Real Estate Investments, k.s.	79	92
ECM Russia, o.o.o.	–	41
ECM OFFICES LIBEŇ s.r.o.	39	25
ECM Facility a.s.	13	20
OPTISERVIS, spol. s r.o.	6	–
ECM Finance a.s.	(26)	10
LANCASTER a.s.	–	9
EPOQUE - LANCASTER a.s.	7	–
ECM CITY EMPIRIA a.s.	150	–
CITY ELEMENT s.r.o.	7	–
VARENSKA OFFICE CENTER, a.s.	128	5
Total	**557**	**640**

Property under construction

In thousands of Euros	31. 12. 2007	31. 12. 2006
ECM Real Estate Investments, k.s.	73	679
ECM Facility a.s.	4	577
OPTISERVIS s.r.o.	3	–
GRASLON a.s.	–	413
ECM Finance a.s.	26	369
EPOQUE - LANCASTER a.s.	–	28
ADARKON a.s.	38	8
STROMOVKA OBCHODNI CENTRUM, a.s. (ECM Retail CB)	84	7
EPOQUE HOTEL a.s.	–	3
SAZERAC a.s.	93	–
Total	**321**	**2,084**

Advance payments for tangible fixed assets

In thousands of Euros	31. 12. 2007	31. 12. 2006
GRASLON a.s.	–	73
ECM Finance a.s.	85	65
ECM Facility a.s.	1	3
TORSAR a.s.	75	–
Total	**161**	**141**

Finance leases

In thousands of Euros	31. 12. 2007	31. 12. 2006
ECM Finance a.s. – Hotel Marriott	11,287	11,267
ECM Finance a.s. – Vila C	304	292
ECM Facility a.s.	32	50
2P, s.r.o.	–	–
Total	**11,623**	**11,609**

3.16. Intangible Assets

In thousands of euros	Software	Other intangible assets	Total	Goodwill
Cost				
Balance at 1. 1. 2006	788	538	1,326	–
Acquisitions through business combinations	13	562	1,235	660
Other acquisitions	–	60	60	–
Disposal	(235)	(534)	(769)	–
Effect of movements in foreign exchange rate	36	27	63	–
Balance at 31. 12. 2006	**602**	**653**	**1,915**	**660**
Balance at 1. 1. 2007	602	653	1,255	660
Acquisitions through business combinations	–	–	–	7,459
Other acquisitions	106	262	368	–
Disposal	(2)	(106)	(108)	(326)
Effect of movements in foreign exchange rate	20	36	56	–
Balance at 31. 12. 2007	**726**	**845**	**1,571,**	**7,793**
Accumulated amortisation and impairment losses				
Balance at 1. 1. 2006	(737)	(47)	(784)	–
Amortisation for the year	(17)	(23)	(40)	–
Acquisitions through business combinations	(11)	(5)	(16)	–
Transfer from property, plant	–	(14)	(14)	–
Disposal	235	35	270	–
Effect of movements in foreign exchange rate	(33)	(4)	(37)	–
Balance at 31. 12. 2006	**(563)**	**(58)**	**(621)**	**–**
Balance at 1. 1. 2007	(563)	(58)	(621)	–
Amortisation for the year	(39)	(453)	(492)	–
Acquisitions through business combinations	–	–	–	–
Transfer from property, plant	–	–	–	–
Disposal	2	2	4	–
Effect of movements in foreign exchange rate	(20)	(21)	(41)	–
Balance at 31. 12. 2007	**(620)**	**(530)**	**(1,150)**	**–**
Carrying amounts				
At 1. 1. 2006	51	491	542	–
At 31. 12. 2006	39	595	1,294	660
At 1. 1. 2007	39	595	1,294	660
At 31. 12. 2007	106	315	421	7,793

The addition to goodwill through business combinations TEUR 7,459 was recorded in connection with the following acquisitions:

- 91% share in Ryazan Hold Company Ltd. and its 100% subsidiary OOO "PROSPEKT" on 24 April 2007;
- 100% share in ECM Poland A.G. and its 100% subsidiary ECM CHINA Beijing S.a.r.l. on 9 October 2007;
- 50% share in Czech Real Estate Regions S.a.r.l. (including its subsidiaries 2P, s.r.o., REZIDENCE UNHOŠŤ a.s. and VARENSKÁ OFFICE CENTER, a.s.) on 5 November 2007; and
- 50% share in OPTISERVIS, spol. s r.o. on 20 December 2007.

The purchase prices, net identifiable assets and liabilities in fair values and goodwill are as follows:

Company	Purchase price	Net assets and liabilities	Goodwill
Ryazan Hold Company Ltd. + OOO "PROSPEKT"	5,180	(715)	5,895
ECM Poland A.G. + ECM CHINA Beijing S.a.r.l.	57	30	27
Czech Real Estate Regions S.a.r.l. + subsidiaries	1,803	1,663	140
OPTISERVIS, spol. s r.o.	1,597	200	1,397
Total	**8,637**	**1,178**	**7,459**

The Company paid a premium for the synergy effects and those effects are part of goodwill acquired.

The disposal of goodwill of TEUR 326 was recorded as a result of deconsolidation of ECM Russia, o.o.o. compared to 31 December 2006. The goodwill of TEUR 326 as at 31 December 2006 was recorded in connection with the acquisition of a 100% share in ECM Russia o.o.o on 22 November 2006. The purchase price was TEUR 9 and total equity of ECM Russia, o.o.o. at the date of acquisition was TEUR (317). Refer to Note 3.1.4 Effect of acquisitions.

3.17. Investments in Associates, Joint Ventures and Other Investments

3.17.1. Investments in Associates, Joint Ventures Accounted for Using the Equity Method

The Group has the following investments in associates and joint ventures which were accounted for using the equity method:

		Ownership		Investment	
	Country	2007	2006	2007	2006
EKZ Tschechien 4 Immobiliengesellschaft s.r.o.	Czech Republic	50%	50%	26	12
ECM Airport Center a.s. (1)	Czech Republic	–	49.5%	–	2,897
East Point Holding B.V.	Netherlands	30%	–	–	–
OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara"	Russia	30%	–	–	–

(1) The ownership interest transfer agreement on the transfer of a 99% stake held by the Group in ECM Airport Center a.s. was signed on 18 May 2005. The ownership transfer was to be completed in two stages, each stage involving a 49.5% stake. Only the first stage of the transaction (Closing I) was completed as of 31 December 2006. The second stage was completed after the finalisation of development work, the approval of the property for use, and possession of the premises by tenants. The sale process was finalized on 18 August 2007.

The Group's share of the post-acquisition profit or loss of the above associates and joint ventures recognised as at 31. 12. 2007 is TEUR 1,907 (2006 – TEUR 1,895).

The financial information relating to associates and joint ventures (100%) is summarised below:

In thousands of euros	Assets	Liabilities	Equity	Profit
2007				
EKZ Tschechien 4 Immobiliengesellschaft s.r.o.	1,344	(1,292)	(52)	(34)
ECM Airport Center a.s.	–	–	–	–
East Point Holding B.V.	9,919	(9,885)	(34)	(16)
OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara"	12,896	(17,246)	4,350	251
2006				
EKZ Tschechien 4 Immobiliengesellschaft s.r.o.	1,254	(1,229)	(25)	(31)
ECM Airport Center a.s.	45,080	(38,802)	(6,278)	(734)

3.17.2. Investments in Joint Ventures Accounted for Using the Method of Proportionate Consolidation

The Group has the following investments in joint ventures which were accounted for using the method of proportionate consolidation:

	Country of incorporation	Ownership interest	
		2007	2006
OPTISERVIS, spol. s r.o.	Czech Republic	50%	–
Czech Real Estate Regions S. a r.l. (1)	Luxembourg	100%	50%
2P, s.r.o. (1)	Czech Republic	100%	50%
REZIDENCE UNHOŠŤ a.s. (1)	Czech Republic	100%	50%
VARENSKÁ OFFICE CENTER, a.s. (1)	Czech Republic	100%	50%

(1) As at 5 November 2007, ECM REAL ESTATE INVESTMENTS A.G. acquired 50% of shares of Czech Real Estate Regions S. a r.l. As a result, this company and its subsidiaries are consolidated using the method of full consolidation as at 31 December 2007.

The following joint ventures were acquired in 2007 and 2006 and have been accounted for using the method of proportionate consolidation:

Company	Purchased on	Share	Country
2007			
OPTISERVIS, spol. s r.o.	20 December 2007	50%	Czech Republic
2006			
Czech Real Estate Regions S. a r.l.	20 January 2006	50%	Luxembourg
VARENSKA OFFICE CENTER, a.s.	25 January 2006	50%	Czech Republic

The acquiree's net assets at the acquisition date (for companies acquired in 2007)

In thousands of euros	OPTISERVIS, spol. s r.o. (50%)
Property, plant and equipment	10
Investment property	–
Intangible assets	1
Trading property	2
Income tax receivables	28
Trade and other receivables	293
Cash and cash equivalents	97
Trade and other payables	(231)
Interest bearing loans	–
Net identifiable assets and liabilities in statutory books	200
Fair value adjustments	–
Net identifiable assets and liabilities in fair values	200
Consideration, paid in cash	(1,597)
Cash (acquired)	**97**
Net cash outflow	**(1,500)**

The acquiree's net assets at the acquisition date (for companies acquired in 2006)

In thousands of euros	Czech Real Estate Regions S.a r.l (50%)	VARENSKA OFFICE CENTER, a.s. (50%)
Property, plant and equipment	–	7
Investment property	–	2,517
Trade and other receivables	–	38
Cash and cash equivalents	6	213
Trade and other payables	–	(2,283)
Interest bearing loans	–	(239)
Net identifiable assets and liabilities	6	253
Consideration, paid in cash	(10)	(253)
Cash (acquired)	**6**	**213**
Net cash outflow	**(4)**	**(40)**

The financial information relating to joint ventures consolidated using the method of proportionate consolidation (50%) is summarised below:

In thousands of euros	Assets	Liabilities	Equity	Post acquisition profit/(loss)
2007				
OPTISERVIS, spol. s r.o.	431	(231)	(200)	–
2006				
Czech Real Estate Regions S.a r.l.	4,978	(5,047)	69	**(82)**
2P, s.r.o.	10,846	(10,431)	(415)	**309**
REZIDENCE UNHOŠŤ a.s.	2,424	(2,140)	(284)	**(76)**
VARENSKA OFFICE CENTER, a.s.	5,143	(4,849)	(294)	**(246)**

3.17.3. Other Investments

The Group has the following investments in which the ownership interest is less than 10%.

		Ownership		Investment	
	Country	2007	2006	2007	2006
NBC Office	Czech Republic	10%	–	261	–
OIK City Point Investment a.s.	Czech Republic	5%	–	56	–
Other investments				**317**	

3.18. Provided Loans

In thousands of euros	2007	Average interest rate	2006	Average interest rate
Provided loans	7,802	8%	1,328	6.9%
Total	**7,802**		**1,328**	

Most significant loan of TEUR 5,625 was provided to East Point Holding B.V. The Group acquired a 30% share of this company during 2007.

3.19. Assets and Liabilities Held for Sale

3.19.1. 2P, s.r.o.

The company is planning the sale of 2P s.r.o. in the first quarter of 2008. Due to the sale, the assets and liabilities of 2P, s.r.o. are reported on the group level as assets and liabilities held for sale.

Assets held for sale

In thousands of euros	2007
Property, plant equipment	1,170
Intangible fixed assets	135
Deferred tax assets	15
Trading properties	22,855
Income tax receivables	24
Trade and other receivables	2,294
Cash and cash equivalents	860
Total	**27,353**

Liabilities held for sale

In thousands of euros	2007
Long-term interest bearing loans and borrowings	(21,467)
Deferred tax liabilities	(674)
Other long-term payables	(1,704)
Short-term interest-bearing loans and borrowings	(219)
Trade and other payables	(1,298)
Total	**(25,362)**

3.20. Trading Property

In thousands of euros	CITY TOWER, s.r.o.	2P, s.r.o.	REZIDENCE UNHOŠŤ a.s.	Other	Total
Balance at 1. 1. 2006	**28,614**	**–**	**–**	**4,442**	**33,056**
Acquisitions	5,215	–	–	4,831	10,046
Transfers to/from investment property	–	–	–	(321)	(321)
Transfers to/from property, plant and equipment	–	4,950	–	–	4,950
Disposals	–	–	–	(2,351)	(2,351)
Effect of movements in foreign exchange rate	1,577	–	–	631	2,208
Balance at 31. 12. 2006	**35,406**	**4,950**	**–**	**7,232**	**47,588**
Balance at 1. 1. 2007	**35,406**	**4,950**	**–**	**7,232**	**47,588**
Acquisitions	49,011	5,053	1,534	3,362	58,960
Acquisitions through business combinations	–	12,899	2,504	–	15,403
Transfers to/from investment property	(84,069)	–	1,901	(1,047)	(83,215)
Transfers to/from property, plant and equipment	–	–	–	–	–
Transfers to/from assets held for sale	–	(22,855)	–	–	(22,855)
Other transfers	–	–	204	(204)	–
Disposals	–	–	–	(2,448)	(2,448)
Effect of movements in foreign exchange rate	(340)	(47)	264	224	101
Balance at 31. 12. 2007	**8**	**–**	**6,407**	**7,119**	**13,534**

Trading property comprises advances paid to suppliers of TEUR 2 (2006 – TEUR 1,879).

Trading property includes borrowing cost in the amount of TEUR 67 (2006 – TEUR 438).

The ownership interest transfer agreement on the transfer of a 95% stake in CITY TOWER s.r.o. (former SPV Tower, s.r.o.) was signed on 23 August 2005. The sale was expected to take place following completion of construction work on the property and achieving a specified contracted rental income target. The construction was completed by December 2007. A future transfer agreement on the transfer of the remaining 5% ownership interest should have become effective after 31 December 2009. The Company entered in negotiations with ECE European City Estates A.G. to cancel future share purchase agreements on the sale of shares of CITY TOWER s.r.o. Cancellation occurred on 20 December 2007. As a result of cancellation related property was reclassified from trading property to Investment property. For further detail refer to Note 3.10.

Other trading property – inventory primarily represents unbilled services provided by ECM Finance a.s. and ECM Real Estate Investments, k.s. to other companies outside the Group.

Disposal of trading property related to Airport Center Project is described in Note 3.8.2. Net result on disposal of trading property – inventory.

Description of trading property – inventory

Company	Project	Description	Location	Estimated total rentable/saleable space (sq m)
REZIDENCE UNHOŠŤ a.s.	TERASY UNHOST	Residential project	Czech Republic	14,278

3.21. Trade and Other Receivables

In thousands of euros R	2007	2006
Trade receivables (1)	11,575	8,435
Value added tax receivables	6,098	1,468
Pre-payments (3)	32,240	3,926
Revaluation of derivatives	5,142	1,365
Prepaid expenses (2)	2,434	385
Receivables from partners	1,565	1,507
Estimated receivables	1,205	121
Receivables from employees	128	91
Receivables from subscribed shareholder's capital	–	17
Other receivables	2,425	1,867
Total	**62,812**	**19,182**

(1) Trade receivables are shown net of impairment losses amounting to TEUR 274 recognised in the current year (2006 – TEUR 183).

(2) Prepaid expenses primarily include expenses incurred in connection with the planned increase in the company's share capital of TEUR 1,792 before tax. For further information refer to Note 3.23.2 Equity Step-Up.

(3) Increase of pre-payments is caused mainly by advances paid by ECM Property Holding (Tianjin) Co. Ltd (TEUR 19,732) and Metropolis Holding (Tianjin) Co., Ltd. (TEUR 9.231). These advances represent 20% of purchase price of the projects realised in China.

The Company entered into negotiations with Telor International Limited to cancel the future share purchase option on the sale of 25% shares of GRASLON a.s. and SAZERAC a.s. Cancellation is expected to occur in 2008. In 2007, the Company paid an advance on the cancellation fee of TEUR 2,500.

3.22. Cash and Cash Equivalents

In thousands of euros	2007	2006
Bank balances	36,551	37,730
Cash and cash equivalents	202	171
Cash and cash equivalents in the cash-flow statement	**36,753**	**37,901**

3.23. Changes in Equity

The consolidated statement of changes in equity is presented on the face of the financial statements.

3.23.1. Share Capital and Share Premium

In thousands of euros	Ordinary shares	
	2007	2006
Issued at 1. 1.	6,350	4,500
Newly issued shares	216	2,168
Equity Step-up	663	–
Transfer to share capital from retained earnings	–	600
Repurchased own shares	–	(918)
Issued at 31. 12.	7,229	6,350

The subscribed capital of the Company as at 31 December 2007 was TEUR 7,229 (2006 – TEUR 6,350), comprising 4,252,500 shares (2006 – 3,735,000 shares), each with a nominal value of EUR 1.7 (2006 – EUR 1.7). All shares are of the same type (ordinary registered shares) and are fully paid-up.

The general meeting of the Company's shareholders was held on 2 October 2007 and the following resolutions were adopted:

1)The general meeting resolve to consider the special report of the Board of Directors in relation to a proposed creation of new authorised capital.

2) The meeting resolved to cancel the existing authorized capital and to create new authorised capital in the amount of EUR 23,800,000 to be divided into 14,000,000 shares with a nominal value of EUR 1.70 per share and to further authorize and empower the Board of Directors to (i) realise any increase of the corporate capital in one or several successive tranches, following, as the case may be, the exercise of the subscription and/or conversion rights granted by the Board of Directors within the limits of the authorised capital under the terms and conditions of warrants (which may be separate or attached to shares, bonds, notes or similar instruments), convertible bonds, notes or similar instruments issued from time to time by the Company, by the issuing of new shares, with or without share premium, against payment in cash or in kind, by conversion of claims on the Company or in any other manner; (ii) determine the place and date of the issue or the successive issues, the issue price, the terms and conditions of the subscription of and paying up on the new shares; and (iii) remove or limit the preferential subscription right of the then existing Shareholders of the Company in case of issue under the authorised capital of either (a) any shares to be delivered by the Company pursuant to the 1,728,180 warrants issued by the Company on 31 July 2006 and 10 August 2006, (b) up to 118,263 shares to be delivered by the Company as a result of the allocation of any options to the management of the Company and its Group under any management option program as from time to time in effect, (c) up to 1,500,000 shares under an equity-step--up-program, with a maximum duration of 4 years, with Bank Austria Creditanstalt AG and (d) any shares against payment in cash provided the newly issued shares will represent at most 5% of the issued capital at the time of issue in one calendar year and no more than 7.5% of the issued capital over a period of three consecutive years, or (e) any shares to be delivered by the Company pursuant to the issuance of up to 2,500,000 warrants to be issued by the Company. This authorisation is valid during a period ending on 24 April 2012 and it may be renewed by a resolution of the general meeting of shareholders adopted in compliance with the quorum and majority rules set by the Articles of Association or, as the case may be, by the laws for any amendment of the Articles of Association.

3.23.2. Equity Step-Up

The option of issuing additional shares of the Company, so called Equity Step-Up, was approved at an extraordinary general meeting on 29 May 2007. The Company concluded a contract with Bank Austria Creditanstalt AG which enables the Company to sell the shares issued additionally for a set contractual price. The number of new shares is contractually limited to 1,500,000 shares. the minimum number of new shares is not set and it will be specified by the Company's management in the individual periods.

As at 31 December 2007, total expenses incurred in connection with the planned increase in the Company's share capital amounted to TEUR 1,792 before tax. The whole amount is presented under Trade and Other Receivables and will be expensed in the following periods based on the number of issued shares.

3.23.3. Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements from the functional to the presentation currency (see accounting policy (s)).

3.23.4. Other Changes in Equity

Other changes in equity primarily include the amount of TEUR 34,475 debited to equity as a result of redemption of a 2006 warrant, refer also to section 3.25.

3.23.5. Earnings per Share

Basic earnings per share 2007

Profit attributable to ordinary shareholders

In thousands of euros	Continuing operations	Discontinued operations	Total
Net profit for the period	25,564	–	25,564
Dividends on non-redeemable preference shares	–	–	–
Net profit attributable to ordinary shareholders 2007	**25,564**	**–**	**25,564**

Weighted average number of ordinary shares

In thousands of shares	Ordinary shares	Weight	Weighted average
Issued ordinary shares at 1 January	3,735	360	3,735
Effect of own shares held	–	360	–
Effect of shares issued in 1st quarter 2007	128	330	116
Effect of shares issued in 3rd quarter 2007	250	180	125
Effect of shares issued in 4th quarter 2007	140	90	35
Weighted average number of ordinary shares as 31 December	–	–	4,011
Earnings per share 2007	**–**	**–**	**6.4**

Basic earnings per share 2006

Profit attributable to ordinary shareholders

In thousands of euros	Continuing operations	Discontinued operations	Total
Net profit for the period	18,755	–	18,755
Dividends on non-redeemable preference shares	–	–	–
Net profit attributable to ordinary shareholders 2006	**18,755**	**–**	**18,755**

Weighted average number of ordinary shares

In thousands of shares	Ordinary shares	Weight	Weighted average
Issued ordinary shares at 1. 1.	3,000	360	3,000
Effect of own shares held	(540)	360	(540)
Effect of shares issued in December 2006	1,275	30	106
Weighted average number of ordinary shares as 31. 12.			2,566
Earnings per share 2006			**7.3**

Diluted earnings per share 2007

Profit attributable to ordinary shareholders (diluted)

In thousands of euros	Continuing operations	Discontinued operations	Total
Net profit attributable to ordinary shareholders	25,564	–	25,564
Net profit attributable to ordinary shareholders 2007	**25,564**	**–**	**25,564**

Weighted average number of ordinary shares (diluted)

In thousands of shares	Ordinary shares	Weight	Weighted average
Weighted average number of ordinary shares (basic) as 31. 12.	4,011		4,011
Effect of convertible warrants	1,728	180	864
Effect of convertible warrants	940	90	237
Weighted average number of ordinary shares (diluted) as 31. 12.			5,112
Earnings per share 2007 (diluted)			**5.0**

Diluted earnings per share 2006

Profit attributable to ordinary shareholders (diluted)

In thousands of euros	Continuing operations	Discontinued operations	Total
Net profit attributable to ordinary shareholders	18,755	–	18,755
Net profit attributable to ordinary shareholders 2006	**18,755**	**–**	**18,755**

Weighted average number of ordinary shares (diluted)

In thousands of shares	Ordinary shares	Weight	Weighted average
Weighted average number of ordinary shares (basic) as 31. 12.	2,566	–	2,566
Effect of convertible warrants	1,728	150	720
Weighted average number of ordinary shares (diluted) as 31. 12.	–	–	3,286
Earnings per share 2006 (diluted)	–	–	**5.7**

3.24. Interest-Bearing Loans and Borrowings

The contractual terms of the Group's interest-bearing loans and borrowings are summarised below. For more information about the Group's exposure to interest rate and foreign currency risk, please refer to Note 3.31.

In thousands of euros	2007	2006
Current liabilities		
Loans from third parties	(10,538)	(1,711)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	(1,419)	(79)
Bank loans	(16,337)	(13,488)
Loans from related parties	(20)	(173)
Total	**(28,314)**	**(15,451)**

The Group also withdrew the bank overdraft in the amount of TEUR (15) as at 31 December 2007 (2006 – TEUR (229)).

In thousands of euros	2007	2006
Non-current liabilities		
Loans from third parties	(18,274)	(6,288)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	(1,612)	–
Bank loans	(129,911)	(102,463)
Loans from related parties	–	(1,710)
Total	**(149,797)**	**(110,461)**

Non-current interest bearing loans and borrowings are payable as follows:

In thousands of euros	Amount as at 31. 12. 2007	Payable in 1–5 years	Payable after 5 years
Loans from third parties	(18,274)	(18,274)	–
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	(1,612)	(1,612)	–
Bank loans	(129,911)	(32,195)	(97,716)
Loans from related parties	–	–	–
Total	**(149,797)**	**(52,081)**	**(97,716)**

In thousands of euros	Amount as at 31. 12. 2006	Payable in 1–5 years	Payable after 5 years
Loans from third parties	(6,288)	(2,215)	(4,073)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	–	–	–
Bank loans	(102,463)	(90,599)	(11,864)
Loans from related parties	(1,710)	–	(1,710)
Total	**(110,461)**	**(92,814)**	**(17,647)**

The maturity of the loans depends on the development of individual projects. Therefore, any further details related to the maturity of the above stated loans would be inaccurate.

The bank loans are secured as follows:

In thousands of euros	Entity	Assets pledged by the entity 2007	Carrying amount of pledged assets 2006
LANCASTER a.s.	Land, trade receivables	5,320	54,904
EPOQUE – LANCASTER a.s.	Land, trade receivables	34,372	–
EPOQUE HOTEL a.s.	Land, trade receivables	15,807	–
CITY TOWER, s.r.o. (SPV TOWER, s.r.o.)	Land, trade receivables, receivables from insurance contracts, shares	122,372	35,411
TABULA MAIOR, a.s.	Land, trade receivables, receivables from insurance contracts, receivables from construction contracts	7,777	16,923
CITY PARKVIEW s.r.o. (SPV Court, s.r.o.)	Land	9,821	7,244
2 P, s.r.o.	Current account receivables, land, receivables from insurance contracts	25,082	4,961
ECM CITY EMPIRIA a.s.	Land, building, trade receivables, shares	90,978	80,180
ECM Byty s.r.o.	Land	–	1,160
OIK City Point Investment a.s.	Land, shares	–	27,500
ECM OFFICES LIBEŇ s.r.o.	Land, shares, receivables from insurance contracts, accounts receivables, cash and bank deposits	12,034	11,092
VARENSKA OFFICE CENTER a.s.	Land, trade receivables	15,255	4,390
ECM Finance a.s.	Shares, accounts receivables	30,996	–
REZIDENCE UNHOŠŤ a.s	Land	8,118	–
Palisády a.s.	Land, shares, trade receivables	893	–
CITY DECO s.r.o.	Shares, land, receivables	6,779	–
CITY ELEMENT s.r.o.	Shares, land, receivables	10,458	–
TOTAL		396,062	243,765

Pledge of the group's stakes and other guaranties for bank loans

Refer to Note 3.32 Contingencies.

3.25. Bonds with Convertible Warrants

On 31 July 2006 the Company issued 115,212 bonds with 15 redeemable warrants attached to each bond. All of these 115,212 bonds and 948,408 of the warrants issued in 2006 were in fourth quarter of 2007 converted into 16,870 new issued bonds with redeemable warrants attached. In the fourth quarter of 2007 the Company further issued 9,662 bonds with warrants attached.

In thousands of euros	2007	2006
Number of convertible notes	26,532	115,212
Proceeds from issue of convertible notes (2)	94,520	25,607
Transaction costs	(4,226)	(1,109)
Net proceeds	90,294	24,498
Amount classified as equity (3)	(7,438)	(1,656)
Amount classified as derivative (1)	(5,027)	–
Accrued interest	2,424	1,185
Carrying amount of liability	**80,253**	**24,027**

(1) The Group identified a derivative embedded in the value of convertible bonds. The nominal value of the derivative amounts to TEUR 14,178. The fair value of the derivative was separated and presented on the face of balance sheet as a long-term liability from derivatives. The Fair value of the derivative amounted to TEUR 5,027 as at the date of separation and to TEUR 5,521 as at 31 December 2007. For further information refer to Note 3.31.5. Liquidity risk.

(2) Proceeds from the issue of convertible notes consist of the redemption value of converted 2006 warrants of TEUR 34,475, the redemption value of converted 2006 bonds of TEUR 25,649 and net proceeds of TEUR 34,396 paid in cash.

(3) The amount of convertible warrants classified as equity of TEUR 7,438 is net of attributable transaction cost of TEUR 348.

The warrants are convertible into 1,857 thousand ordinary shares in October 2011 at the option of the holder, which is a rate of one share for each warrant. Seventy warrants are attached to each bond.

Interest rate of the bonds is 5% and interest is payable on an annual basis on 30 September. Bonds will be redeemed in full on 9 October 2011. Subject to certain conditions, the Company may decide to redeem all the bonds early (on interest payment date) at par plus the interest amount accrued till the early redemption date.

3.26. Other Bonds

Starting 30 March 2007, the Company has issued 800 bearer bonds with a nominal value of TCZK 1,000 each. The Company could issue bearer bonds for a maximum value of TCZK 1,000,000.

In thousands of euros	2007	2006
Number of bearer bonds	800	–
Proceeds from issue of bearer bonds	28,510	–
Transaction costs	(245)	–
Net proceeds	28,265	–
FX translation as at 31. 12. 2007	1,543	–
Accrued interest	530	–
Carrying amount of liability	**30,338**	–

The principal of the bearer bonds is due on 30 March 2012.

The interest rate of the bonds is floating and amounted to 5.56% p.a. in the first half of 2007 and to 6.53% in the second half of 2007. Interest is payable on a semi-annual basis on 31 March and 30 September.

3.27. Trade and other Payables

In thousands of euros	2007	2006
Trade payables	(15,754)	(11,396)
Payable to the shareholder resulting from purchase of own shares	(2,325)	(4,649)
Advances received	(4,028)	(3,183)
Payables resulting from the purchase of financial assets	(18)	(2,017)
Estimated payables	(12,449)	(1,852)
Income tax payables	(685)	(609)
Payables to employees, social security and health insurance, employees income tax	(713)	(319)
Accrued expenses	(393)	(242)
Value added tax payables	(102)	–
Deferred revenues	(383)	(63)
Revaluation of derivatives	(1,233)	(33)
Other payables	(4,331)	(358)
TOTAL	**(42,414)**	**(24,721)**

The increase in trade payables is caused by expanding activities of the Group, mainly in the Hotel operations segment.

The most significant amount of TEUR 8,399 in the estimates was created by CITY TOWER, s.r.o. Estimates mostly relate to uninvoiced services related to development projects.

3.28. Provisions

The Group creates provisions mainly for onerous contracts, expected business risks with existing receivables, real estate-transfer tax and penalties. The provisions recorded by the Group as at 31 December 2007 amounted to TEUR 3,102 (2006 – TEUR 1,119).

In thousands of euros	
Balance at 1. 1. 2006	211
Provisions created during the year	867
Provisions used during the year	(2)
Effect of movement in foreign exchange rate	43
Balance at 31. 12. 2006	1,119
Balance at 1. 1. 2007	1,119
Release of provisions during the year	(1,119)
Provisions created during the year	3,066
Provisions used during the year	–
Effect of movement in foreign exchange rate	36
Balance at 31. 12. 2007	3,102
Non-current	–
Current	3,102
Total	**3,102**

Based on market development and internal analysis, the Group created a provision for onerous contracts within the Hotel operations segment of TEUR 1,000 as at 31 December 2007.

3.29. Finance Lease Liabilities

As at 31 December 2007, long-term liabilities amounted to TEUR 17,986 (2006 – TEUR 14,469), of which TEUR 13,548 (2006 – TEUR 13,733) related to finance lease liabilities.

Non-cancellable finance lease rentals are payable as follows:

In thousands of euros	2007	2006
Between one and five years	432	334
More than five years	13,116	13,399
Total	**13,548**	**13,733**

During the year ended 31 December 2007, TEUR 789 was recognised as an interest expense in the income statement in respect of finance leases (2006 – TEUR 688).

3.30. Operating Leases

3.30.1. Contracts Entered into by the Group as Lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of euros	2007	2006
Less than one year	2 538	63
Between one and five years	10,040	2,859
More than five years	10,625	821
Total	**23,203**	**3,743**

The Group has entered into operating leases of building for hotel operations. The Group also leases offices and cars under operating leases.

3.30.2. Contracts Entered into by the Group as Lessor

The Group leases out its investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

In thousands of euros	2007	2006
Less than one year	6,808	498
Between one and five years	20,563	1,993
More than five years	5,296	104
Total	**32,667**	**2,595**

The Group has also entered into a sublease agreement for part of its premises. A certain portion of the sublease rentals is variable depending on the turnover of the lessee.

3.31. Financial Instruments

Exposure to various risks arises in the normal course of the Group's business. These risks include credit risk (refer to Note 3.31.1), capital risk (refer to Note 3.31.2), operational risk (refer to Note 3.31.3), market risks including currency risk, interest rate risk and price risk (refer to Note 3.31.4) and liquidity risk (refer to Note 3.31.5).

3.31.1. Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers and suppliers that are entitled to draw advances for projects under construction. In some cases, the Group requires bank references.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables and advances paid consist of a large number of customers and projects' suppliers. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007 no guarantees were outstanding (2006: none).

Credit risk concentration

	Total exposure		
	On-balance sheet	Off-balance sheet	Total credit exposure
Amounts due from banks	36,551	–	36,551
Positive fair value of financial derivative transactions	5,142	–	5,142
Amounts due from customers and advances paid	57,670	–	57,670
Total	**100,543**	–	**100,453**

The Group has bank accounts with prestigious banking institutions, no risk is expected.

The Group paid significant advances to suppliers of projects under construction. For advances paid to suppliers, the Group provides regular control of invested resources in realised projects.

The Group uses the following standard security steps in the case of bankruptcy of development project suppliers:

1. Bank guarantees for provision of work in accordance with contract (10% of total price)
2. Retention from each monthly invoicing (10%).
3. Other contractual agreements
4. Damage compensation

Receivables related to the rentals are secured by bank guarantees and advances received by lessees.

3.31.2. Capital Risk

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged compared to 2006.

The Group as a developer and property investor is mainly influenced by the fact that it leverages its project financing by using bank debts. There are no real seasonality impacts on its financial position but rather a volatility of financial markets might positively or negatively influence the Group's financial position.

To minimise the negative impacts of financial market volatility, i.e. Currency (FX) and Interest Rate (IR) Risk, the Group has already started to implement and to develop its FX and IR hedging policy. This policy contains rules and methods how to manage mentioned risks.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 3.24, bonds with convertible warrants and other bonds disclosed in Notes 3.25 and 3.26 respectively, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 3.22 and 3.23 respectively.

Gearing ratio In thousands of euros	2007	2006
Debt (1)	288,702	149,939
Cash and cash equivalents	36,753	37,901
Net debt	251,949	112,038
Equity (2)	147,956	117,684
	63%	**49%**

(1) Debt is defined as long and short-term borrowings, bonds with convertible warrants and other bonds as detailed in Note 3.24, 3.25 and 3.26.

(2) Equity includes all capital and reserves of the Group.

3.31.3. Operational Risk

Operational risk is defined as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events. The Company assesses these risks on a regular basis and undertakes measures aimed at systematic detection and minimisation of these risks. In 2007, operational risk management activities focused on the implementation of new management information system comprising information about individual projects and legal documentation in force.

The Group discloses significant amount of advances paid for realised projects. Advances are paid on the basis of a contract concluded with supplier, where the termination dates and quality required are directly specified. If the contract is breached, the supplier is obliged to return the all costs related to project acquisition, including the penalisation fee, to the investor.

In respect of areas with an identified significant risk the Company has implemented a set of key risk indicators that serve as an early warning system and as a measure of operational risk taken.

3.31.4. Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. The Group does not designate derivatives as hedging instruments under a fair value hedge accounting model.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk
The Group is exposed to foreign currency risk on borrowings that are denominated in a currency other than Czech crowns. The currency risk is managed where possible by making investments in the same currency as the financing sources utilised. If the currencies are different, the Group limits the risk, where appropriate, by using hedging instruments and other mechanisms.

The currency risk during the period of repayment of the liabilities to the third parties is usually offset by generating revenues denominated in the same underlying currency, which is applicable to both sales revenues and operating revenues.

EUR is also commonly used for transactions in the real estate market in the Czech Republic. As a result, the Group is exposed to foreign currency risk on investment properties and trading properties – inventory, where the related future revenues might be generated in EUR.

The Group used derivative financial instruments to hedge against the exposure to foreign currency risk arising on forecast transactions, although the Group do not use hedge accounting.

To protect against foreign currency risk there are used mainly instruments as standard foreign currency forwards, foreign currency swaps and structured foreign currency forwards. These derivatives are used in two levels. The first one is directly connected with cash-flows of project financing and the second one to hedge the global FX position.

Overview of foreign currency receivables and payables as at 31 December 2007 and 2006

2007		Total	Less than 1 year	1–5 years	More than 5 years
Balance sheet items					
Trade receivables	TEUR	205	205	–	–
	TUSD	152	152	–	–
Trade payables	TEUR	(13,468)	(13,468)	–	–
	TUSD	(306)	(306)	–	–
	TGBP	–	–	–	–
Loans	TEUR	(59,188)	(871)	(16,404)	(41,913)
	TUSD	(3,028)	(3,028)	–	–
Bonds	TEUR	(80,253)	(2,181)	(78,072)	–
Finance lease liabilities	TEUR	(13,628)	(80)	(432)	(13,116)
Total balance sheet items	**TEUR**	**(166,332)**	**(16,395)**	**(94,908)**	**(55,029)**
	TUSD	**(3,182)**	**(3,182)**	**–**	**–**
	TGBP	**–**	**–**	**–**	**–**

2006		Total	Less than 1 year	1–5 years	More than 5 years
Balance sheet items					
Trade receivables	TEUR	1,486	1,486	–	–
	TUSD	22	22	–	–
Trade payables	TEUR	(1,347)	(1,347)	–	–
	TUSD	(409)	(409)	–	–
	TGBP	(7)	(7)	–	–
Loans	TEUR	(116,639)	(7,589)	(92,613)	(16,437)
Bonds	TEUR	(24,027)	(1,185)	(22,842)	–
Finance lease liabilities	TEUR	(13,383)	(50)	(334)	(12,999)
Total balance sheet items	**TEUR**	**(153,910)**	**(8,685)**	**(115,789)**	**(29,436)**
	TUSD	**(387)**	**(387)**	**–**	**–**
	TGBP	**(7)**	**(7)**	**–**	**–**

Sensitivity Analysis – Exposure to currency risk

A 10% strengthening (devaluation) of the Czech crown against the below currencies at 31 December 2007 would have decreased (increased) the profit and loss account by TEUR 20,021 (2006 – TEUR 4,532). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

FX rate as at 31. 12. 2007		10%	-10%
EUR	26,620	29,282	23,958
USD	18,078	19,886	16,270

Average FX rate for 12 months 2007		10%	-10%
EUR	27,762	30,538	24,986
USD	20,308	22,339	18,277

2007	Orig. curr.		TCZK	TCZK +10%	Change	TCZK -10%	Change
Balance sheet items							
Trade receivables	TEUR	205	5,457	6,003	546	4 911	(546)
	TUSD	152	2,748	3,023	275	2 473	(275)
Investment property	TEUR	377,293	10,042,540	11,047,894	1,004,354	9,039,186	(1,004,354)
Trade payables	TEUR	(13,468)	(358,518)	(394,370)	(35,852)	(322,666)	35,852
	TUSD	(306)	(5,532)	(6,085)	(553)	(4,979)	553
Loans	TEUR	(59,188)	(1,575,585)	(1,733,143)	(157,558)	(1,418,026)	157,558
	TUSD	(3,028)	(54,740)	(60,214)	(5,474)	(49,266)	5,474
Bonds	TEUR	(80,253)	(2,136,335)	(2,349,968)	(213,633)	(1,922,702)	213,633
Finance lease liabilities	TEUR	(13,628)	(362,777)	(399,055)	(36,278)	(326,500)	36,278
Total balance sheet items	**TEUR**	**180,623**	**4,807,185**	**5,289,003**	**480,819**	**4,327,366**	**(480,819)**
(Net exposure to currency risk)	**TUSD**	**(3,182)**	**(57,524)**	**(63,277)**	**(5,752)**	**(51,772)**	**5,752**
				TCZK	555,827	TCZK	(555,827)
				TEUR	**20,021**	**TEUR**	**(20,021)**

FX rate as at 31. 12. 2006		10%	-10%
EUR	27,495	30,245	24,746
USD	20,876	22,964	18,788
GBP	40,944	45,038	36,850

Average FX rate for 12 months 2006		10%	-10%
EUR	28,343	31,177	25,509
USD	22,609	24,870	20,348
GBP	41,579	45,737	37,421

2006	Orig. curr.		TCZK	TCZK +10%	Change	TCZK -10%	Change
Balance sheet items							
Trade receivables	TEUR	1,486	40,858	44,943	4,086	36,772	(4,086)
	TUSD	22	459	505	46	413	(46)
Investment property	TEUR	200,937	5,524,763	6,077,239	55,476	4,972,287	(552,476)
Trade payables	TEUR	(1,347)	(37,036)	(40,739)	(3,704)	(33,332)	3,704
	TUSD	(409)	(8,538)	(9,392)	(854)	(7,684)	854
	TGBP	(7)	(287)	(315)	(29)	(258)	29
Loans	TEUR	(116,639)	(3,206,989)	(3,527,688)	(320,699)	(2,886,290)	320,699
Bonds	TEUR	(24,027)	(660,622)	(726,685)	(66,062)	(594,560)	66,062
Finance lease liabilities	TEUR	(13,383)	(367,966)	(404,762)	(36,797)	(331,169)	36,797
Total balance sheet items	**TEUR**	**47,027**	**1,293,008**	**1,422,308**	**(367,700)**	**1,163,708**	**(129,300)**
(Net exposure to currency risk)	**TUSD**	**(387)**	**(8,079)**	**(8,887)**	**(808)**	**(7,271)**	**808**
	TGBP	(7)	(287)	(315)	(29)	(258)	29
				TCZK	128,64	TCZK	(128,464)
				TEUR	**4,532**	**TEUR**	**(4,532)**

b) Interest Rate Risk
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments are described under Notes 3.18 and 3.24, 3.25, 3.26 for financial assets and financial liabilities, respectively.

The interest rate risk is applicable generally to those business activities and development projects where the floating interest rates for debt financing are used. Bank loans usually have flexible interest rates in a vast majority of senior financing cases depending on EURIBOR or PRIBOR rates for the reference period from 1 month to 6 months increased by a fixed margin. Some of the loan agreements request the Group to enter into interest rate hedges using derivatives should the exposure to cash flow interest rate risk exceed predefined levels.

Both standard and structured amortised interest rate swaps are used to hedge against the interest rate risk derived from the cashflow of project financing based mainly on 3M EURIBOR interest rates. These IRS are set up directly for payment schedules of concrete credit facilities. However, the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model and records changes in the fair value of the derivatives in the profit and loss account.

There are no real seasonality impacts on the Group's position but rather a development on the office, retail and residential market might positively or negatively influence the Group's overall/financial position.

Sensitivity Analysis – Interest rate risk

Sensitivity analysis for variable interest rate instruments
An increase (decrease) of interest rates by 10% at the reporting date would have decreased (increased) the profit and loss account by TEUR 992 (2006 – TEUR 542) as shown in the following table. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

In thousands of euros		Average amounts	
2007	Effective interest rate	Total	Interest (calculated)
Bank loans	6.3%	(131,151)	(8,292)
Other bonds	6.5%	(30,338)	(1,972)
Provided loans	7.5%	4,565	342
Total		**(156,924)**	**(9,922)**

	Increase of rate by 10%			Decrease of rate by 10%	
increase of rate by 10%	Interest (calculated)	PL effect	decrease of rate by 10%	Interest (calculated)	PL effect
7.0%	(9,121)	(829)	5.7%	(7,463)	829
7.2%	(2,169)	(197)	5.9%	(1,775)	197
8.3%	376	34	6.8%	308	(34)
	(10,914)	**(992)**		**(8,930)**	**992**

In thousands of euros		Average amounts	
2006	Effective interest rate	Total	Interest (calculated)
Bank loans	5.5%	(64,894)	(3,569)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	7.0%	(27,248)	(1,907)
Provided loans	6.0%	945	57
Total		**(91,197)**	**(5,419)**

	Increase of rate by 10%			Decrease of rate by 10%	
increase of rate by 10%	Interest (calculated)	PL effect	decrease of rate by 10%	Interest (calculated)	PL effect
6.1%	(3,926)	(357)	5.0%	(3,212)	357
7.7%	(2,098)	(191)	6.3%	(1,716)	191
6.6%	63	6	5.4%	51	(6)
	(5,961)	**(542)**		**(4,877)**	**542**

Sensitivity analysis for fixed interest rate instruments

The Group account for all financial assets and liabilities (except for derivatives) at amortised costs. No fair value adjustments are recorded through the profit or loss account. The Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The fair value of convertible bonds issued in the fourth quarter of 2007 and loans with the fixed interest rate has not changed significantly as at 31 December 2007.

3.31.5. Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

With respect to the nature of its business (where a vast majority of business activities performed are allocated in special purpose companies) and its assets, the Group is naturally exposed, to some extent, to liquidity risk. However, this risk is mitigated by the business strategy adopted and carried out by the Group – to develop a project property and execute an investment exit generating sales revenues or continue to operate the property. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Contractual maturities for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

In thousands of euros	Contractual payments	Payable in less than year	Payable in 1–5 years	Payable after 5 years
Loans from third parties	(32,163)	(11,200)	(20,963)	–
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	(3,273)	(1,533)	(1,740)	–
Bank loans	(155,723)	(17,485)	(34,239)	(103,999)
Loans from related parties	(21)	(21)	–	–
Operating leases – lessee	(165)	(72)	(93)	–
Operating leases – lessor	35,281	7,353	22,208	5,720
Finance leases	(32,474)	(940)	(3,761)	(27,773)
Bonds	(168,457)	(6,543)	(161,914)	–
Total	**(356,995)**	**(30,441)**	**(200,502)**	**(126,052)**

Effective interest rates and repricing analysis

In respect of interest-bearing financial liabilities, the following tables indicate their effective interest rates at the balance sheet date and the periods in which they reprice.

In thousands of euros	2007					
	Effective interest rate	Total	6 months or less	6–12 months	1–5 years	Fixed interest rate
Loans from third parties	12.8%	(28,812)	–	–	–	(28,812)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	8.0%	(3,031)	–	–	–	(3,031)
Loans from related parties	5.0%	(20)	–	–	–	(20)
Bank loans	6.6%	(146,248)	(146,248)	–	–	–
Convertible bonds	11.0%	(80,253)	–	–	–	(80,253)
Other bonds	6.5%	(30,338)	(30,338)	–	–	–
Total		**(288,702)**	**(176,586)**	–	–	**(112,116)**

In thousands of euros			2006			
	Effective interest rate	Total	6 months or less	6–12 months	1–5 years	Fixed interest rate
Loans from third parties	12.0%	(7,999)	–	–	–	(7,999)
Loans from third parties – BOHL MEZZANINE INVESTMENT S.A.	8.0%	(79)	–	–	–	(79)
Bank loans	6.0%	(115,951)	(115,951)	–	–	–
Loans from related parties	5.0%	(1,883)	–	–	–	(1,883)
Convertible bonds	9.5%	(24,027)	–	–	–	(24,027)
Total		**(149,939)**	**(115,951)**	**–**	**–**	**(33,988)**

Derivatives

Type of derivative	Nominal value		Positive fair value		Negative fair value	
In thousands of EUR	2007	2006	2007	2006	2007	2006
Foreign currency forward	45,500	36,350	2,959	1,130	–	–
Foreign currency swap	62,634	7,269	1,689	235	(486)	(33)
Interest rate swap	1,327,559	–	494	–	(747)	–
Embedded derivative	14,178	–	–	–	(5,521)	–
Total	**1,449,871**	**43,619**	**5,142**	**1,365**	**(6,754)**	**(33)**

Type of derivative			Maturity 2007			
In thousands of EUR	Carrying value	6 months or less	6–12 months	1–2 years	2–5 years	more than 5 years
Foreign currency forward	48,459	48,459	–	–	–	–
Foreign currency forward	(45,500)	(45,500)	–	–	–	–
Settled on gross basis	2,959	2,959	–	–	–	–
Foreign currency swap	1,203	1,203	–	–	–	–
Interest rate swap	(253)	(16)	14	333	(582)	(2)
Embedded derivative	(5,521)	–	–	–	(5,521)	–
Settled on net basis	(4,571)	1,187	14	333	(6,103)	(2)
Total	**(1,612)**	**4,146**	**14**	**333**	**(6,103)**	**(2)**

Type of derivative			Maturity 2006			
In thousands of EUR	Carrying value	6 months or less	6–12 months	1–2 years	2–5 years	more than 5 years
Foreign currency forward	37,480	31,820	5,660	–	–	–
Foreign currency forward	(36,350)	(30,850)	(5,500)	–	–	–
Settled on gross basis	**1,130**	**970**	**160**	**–**	**–**	**–**
Foreign currency swap	202	202	–	–	–	–
Interest rate swap	–	–	–	–	–	–
Settled on net basis	**202**	**202**	**–**	**–**	**–**	**–**
Total	**1,332**	**1,172**	**160**	**–**	**–**	**–**

3.32. Contingencies

The Group identified the following contingencies as at 31 December 2007:

- ECM Finance a.s. pledged its business shares as a guarantee to the bank to secure the obtained loan. The guarantee totals TEUR 71,500.

- CITY TOWER, s.r.o. pledged its fixed assets and receivables from the bank account as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 3,500.

- ECM CITY EMPIRIA a.s. pledged its receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 82,000.

- LANCASTER a.s. pledged its fixed assets and receivables from its bank account as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,818.

- Czech Real Estate Regions S.a.r.l. pledged its share in REZIDENCE UNHOŠŤ, s.r.o. and VARENSKA OFFICE CENTER a.s. as a guarantee for bank loans granted to these Group companies.

- EPOQUE – LANCASTER a.s. pledged its fixed assets and receivables from its bank account as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,630.

- EPOQUE HOTEL a.s. pledged its fixed assets and receivables from its bank account as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,630.

- ECM REAL ESTATE INVESTMENTS A.G. has pledged its stake in TABULA MAIOR, a.s., ECM CITY EMPIRIA a.s., ECM OFFICES LIBEN, s.r.o., CITY DECO, s.r.o., Palisady s.r.o., CITY ELEMENT s.r.o. and NATIONAL BUSINESS CENTRE Ostrava a.s. for bank loans granted to these Group companies. In addition ECM REAL ESTATE INVESTMENTS S.A. pledged its fixed assets and receivables from its bank account for a bank loan granted to the Group.

- ECM OFFICES LIBEŇ s.r.o. pledged its receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 14,095.

- Palisády, a.s. pledged its land and receivables as a bank guarantee to secure loans of TEUR 595.

- CITY DECO s.r.o. pledged its, receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 19,149.

- CITY ELEMENT s.r.o. pledged receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 15,259.

- VARENSKÁ OFFICE CENTER, a.s. pledged receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 9,205.

- REZIDENCE UNHOŠŤ a.s. pledged its receivables and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 17,141.

3.33. Related Parties

3.33.1. Identity of Related Parties

The Group has a related party relationship with its subsidiaries, associates, joint ventures and with its directors and executive officers.

Key management persons are Chairman of the Board of Directors, Finance Director, Chief Project Manager and other members of Executive Management Council. The accrued remuneration of the key management personnel is as follows:

In thousands of euros	2007	2006
Remuneration and benefits paid to key management	2,100	1,683
Total	**2,100**	**1,683**

3.33.2. Transactions with Related Parties

The Group identified the following transactions with related parties in 2007 and 2006:

In thousands of euros		2007	2006
Milan Janků	Loans provided to the Group	4	4
	Loans granted by the Group	112	105
	Advances provided by the Group	–	–
	Payables to the Group	4,597	311
	Receivables from the Group	61	141
ECM Group Asset Management, a.s.	Payables to the Group	1	–
Domus Eventis Management s.r.o.	Loans granted by the Group	23	–
	Payables to the Group	1	–
Nonet s.r.o.	Loans granted by the Group	30	28
	Payables to the Group	29	–
	Services provided to the Group	–	9
	Purchases from the Group	–	22
Longin Business Center a.s.	Loans provided to the Group	1,267	1,329
	Loans granted by the Group	45	45
	Receivables from the Group	–	16
	Payables to the Group	24	2
	Services provided to Group	720	757
	Purchases from the Group	–	8

3.34. Subsequent Events

3.34.1. Sale of Assets Held for Sale

As described in Note 3.19, the Company is planning the sale of 2P s.r.o. in the first quarter of 2008. Due to the sale, the assets and liabilities of 2P, s.r.o. are reported on the group level as assets and liabilities held for sale.

3.34.2. Other Subsequent Events

As at 17 January 2008, Yerevan Invest, B.V was established. The sole owner of the company is ECM REAL ESTATE INVESTMENTS A.G.

Notes

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