**annual report 2008**

from a local developer to an international player

ECM

**CITY Epoque – Residences**
Prague, Czech Republic

BIG IDEALS CAN INSPIRE THE WORLD
BUT TO CHANGE THE WORLD THEY
HAVE TO BECOME A REALITY

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# Letter From the Chairman of the Board and President



Dear Shareholders, Business Partners, Clients and Customers, Employees and all Distinguished Stakeholders,

We are pleased to be able to present you with the annual report of ECM REI AG for the year 2008, a year that will, for sure, enter into schoolbooks and history as the year when one of the most severe global financial crises in the modern era began.

I must admit that 2008 was an extremely challenging year for this company and we fought, as did most of our competitors, against several unprecedented trends:

— The collapse of the global capital and financial markets, making it practically impossible to issue new instruments and raise additional capital.
— The credit crunch – significant credit restrictions, with all banks primarily focused on strengthening their own balance sheets.
— The slow-down of the global economy, which developed into a quickly spreading economic crisis.

All of the above-mentioned facts have naturally had severe consequences for real estate players, and ECM is no exception. We feel, however, that we reacted very quickly to the situation and during the third quarter of 2008 we adopted a series of cost saving measures which consisted of a significant reduction in personnel and a diligent revision of all contracted goods and services, including the renegotiation of conditions for services in which ECM is a buyer. I am proud to say that we have now reached our savings target for 2009 and will soon report strongly reduced administrative expenses.

Despite the worsening of external market conditions, however, we can still report several remarkable successes:

— In the Czech Republic, we celebrated the successful opening of the CITY Tower, the tallest office building in the Czech Republic and the winner of many awards, including a 'Special Prize from the Jury' in the prestigious 'Best of Realty, 2008' international competition and the 'Best Office Development' in the 'CiJ Awards, 2008'.
— In Ostrava, we completed the Varenská office building, and this is now fully let.
— In China, we completed the takeover of the "ECMall" project from the general contractor in December and shortly after that, despite the general gloomy market sentiment, we succeeded in receiving 700 million RMB (USD 105 million) financing in January 2009, a transaction which confirmed the outstanding overall quality of the project.
— In Russia, we successfully concluded a partnership agreement with the construction company PSJ, which became a 15% partner in the Ryazan project.

I believe, therefore, that despite the worsening economic climate in 2008, we can be exceedingly proud of our achievements. None of these would be possible, of course, were it not for the continuing support of our employees and the very good cooperation that we have with our business partners. I would like to thank each and every one of them for their contribution and support and I am convinced that we will, with the right strategy, with the perseverance of our employees, and with the continuous good cooperation with our business partners, successfully cope with the challenges that are ahead of us in 2009.

Milan Janků
Chairman of the Board and President

**CITY Tower – Offices**
Prague, Czech Republic

LEADERSHIP IS THE ART
OF INSPIRING OTHERS AND
MAKING THEM SUCCESSFUL

# Key Milestones of 2008

## 1st Quarter

| | |
|---|---|
| January | TietoEnator moved into Varenská Office Center in Ostrava |
| January | Expansion of facility management services with acquisition of 50% share in Optiservis |
| March | Raiffeisenbank signed as the largest tenant in the CITY Tower, with 17,500 m² |

## 2nd Quarter

| | |
|---|---|
| May | Appointment of Mr. Josef Franz Homola as a Non-Executive Member of the Board of Directors |
| May | Started construction of Phase 2 of the Terasy UNHOŠŤ residential project |
| May | Issued zoning permit for the CITY Epoque Residence project |
| June | Issued zoning permit for the CITY Epoque Hotel project |
| June | Acquisition of the remaining 50% stake in Optiservis |

## 3rd Quarter

| | |
|---|---|
| August | Sale of the Diplomat Pilsen to CA Immo International |
| August | Achieved agreement with ECE on the settlement of the Ryazan project |
| September | Issued 250,000 shares under the Equity Step-Up Program to support the balance sheet structure and further strengthen the company's capital position |
| September | Effective start of the CITY Deco and Element projects: obtained demolition permit |
| September | Coupon payment on CZK bonds (EUR 1.5 million equivalent) |
| September | Increase of senior financing for CITY Tower project by EUR 10.5 million to EUR 75 million |
| September | Refinancing of acquisition loan of CITY Court (EUR 2.9 million) |

## 4th Quarter

| | |
|---|---|
| October | Coupon payment on Eurobonds (EUR 4.7 million) |
| October | ECM Group N.V., the controlling shareholder of ECM REI A.G., released a voluntary takeover offer for ECM REI shares, at a price of CZK 303 per share |
| November | Sale of a 15% minority stake in the Ryazan project to PSJ for a total consideration of EUR 5.18 million |
| December | The Board of Directors of ECM REI A.G. accepted ECM Group N.V.'s offer for a Private Placement of 2,365,592 new shares at EUR 10.23 per share in order to further strengthen the company's balance sheet and capital position. As a result of both the voluntary takeover offer and the private placement, the controlling shareholder, ECM Group N.V., consolidated its shareholding in ECM REI to 84% |
| December | Delivery of completed shell and core of ECMall building in Bejing from the general contractor |

# Outlook and Subsequent Events

## BUSINESS OUTLOOK FOR 2009

The feeling throughout the worldwide real estate industry is that it will continue to be impacted by the effects of the global financial crisis throughout the whole of 2009, and that it is unlikely that there will be any significant recovery before the end of the year. For this reason, ECM plans to continue to use this year to strengthen its balance sheet structure and capital position by strict cost management and prioritization of its project portfolio. It may also consider disposing of some of its investment and/or development projects in order to release project equity for use in other priority projects. ECM may also invite strategic and/or financial co-investors into some of its projects, particularly those with a larger gross development value.

In general, ECM's plans for the Czech Republic and elsewhere in the CEE during the course of 2009 are as follows:

— The company's main development activities will be focused on its CITY Project in Prague 4 – Pankrác. After the successful completion of the CITY TOWER project, the company intends to start the realisation phase of some of the other developments within the CITY Project during the course of 2009, including CITY DECO, CITY ELEMENT, CITY COURT and CITY EPOQUE RESIDENCE.

— ECM is in discussion with potential equity partners with regard to its projects outside Prague, with the goal of finding a strategic partner with know-how in specific development areas, and also to secure the additional equity that is needed in order to invest in some of the company's planned new developments, such as the retail projects, the Palace Hotel project in Ostrava and others.

— If there is a suitable opportunity, ECM will consider the possibility of exiting some of its smaller projects (for example, the Residence Palisády project) as well as some of the buildings from the ECM asset portfolio.

— The residential project in Poland (near to Poznaň) will continue to be developed until it receives its building permit. ECM does not discount the possibility of exiting this project.

In China, ECM plans to hold the grand opening of the retail center "ECMall" in September, 2009. The opening of the office building "Metropolis Tower" is also expected in autumn 2009. ECM has succeeded in building a high-performance local team of professionals in China, and since it aims to look for new opportunities during the course of 2009, there are no plans for the team to slow down after the first two projects are completed.

In Russia, the key priority for ECM is to secure project financing for its Ryazan project and to develop a strategic partnership with a newly created real estate holding formed by PPF Group and Milan Janků's real estate assets.

ECM will also continue to push forward the development process of the other projects in its development portfolio during 2009, mainly focusing on the acceleration of the permitting, and other related processes.




## SUBSEQUENT EVENTS – IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF THE FINANCIAL YEAR

### China

In January, 2009, ECM agreed with Nordevo Investments Limited, its project partner in China, on the sale of a 23% stake in China East Investment Limited and Metropolis Holding China Limited for a total consideration of USD 11.5 million. China East Investment Limited and Metropolis Holding China Limited are the companies that own, respectively, the Beijing-based ECMall and Metropolis Tower Projects through their wholly-owned subsidiaries. Nordevo has been granted an option ("Put Option") that requires ECM to purchase 12.9% of the issued share capital and the related shareholders' loans of the HK Holding Companies for a consideration of USD 6.45 million, plus the value of any new, pro-rata, shareholders' loans, together with the cost of financing accruing at the rate of 20% per annum for the period from nine to twelve months after completion of the transaction. ECM has been granted an option ("Call Option") to require Nordevo to sell 12.9% of the issued share capital and the related shareholders' loans of the HK Holding Companies on similar terms, at any time after completion of the transaction, for a period of 12 months.

In January 2009, an RMB 700 million 5-year loan agreement was signed with DBS Bank (China) Ltd., Beijing Branch, and HSBC Bank (China) Co., for the senior financing of the ECMall building in Beijing, China. The loan will cover all financing requirements in relation to the ECMall through to its completion, will have a grace period of 24 months, and will bear an effective interest rate (on the basis of PBOC), currently standing at approximately 8% per annum, all in.

### The Creation of a Real Estate Holding between PPF Group N.V. and Mr. Milan Janků

The ultimate owner of ECM Group N.V., Mr. Milan Janků, and the PPF Group, are currently in negotiations regarding the creation of a joint real estate holding. The creation of a new real estate holding will not have any impact on the management and control of ECM, which will remain under the control of Mr. Milan Janků, through his majority stake in ECM Group N.V.. This potential transaction will have no impact on the public listing of the Company, and ECM Group N.V. is not planning to withdraw the Company's shares from the Prague Stock Exchange. The Company will continue to duly fulfill its obligations resulting from the public listing of its shares and will assure maximum transparency towards its minority shareholders.

# Company Management



## BOARD OF DIRECTORS

### Milan Janků
Chairman of the Board of Directors

Milan Janků was one of the co-founders of ECM in 1991 and remains the controlling shareholder of ECM Real Estate Investments A.G., via his majority share in ECM Group N.V. 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 Janků'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.

Before founding ECM, Milan Janků worked as Czech and Slovak Republic country manager for the Austrian Girozentrale der Oesterreichischen Sparkassen AG (now Erste Bank).

He graduated from the German Fernuniversitaet.

### Jana Žejdlíková
Member of the Board of Directors

Jana Žejdlíková joined ECM in 1992 as a member of the Private Equity Team for Central and Eastern Europe. During this time, she was involved in the purchase, development and subsequent sale of several of the company's biggest schemes. In 1996, she became the Financial Director and Member of the Supervisory Board of ECM and as part of the company's reorganization during the early part of 2008, she transferred to Executive Vice-President for the Czech Republic.

She graduated from the University of Economics in Prague.

### Tomáš Laštovka
Member of the Board of Directors

Tomáš Laštovka joined ECM in 1999 having previously worked for a number of the Czech Republic's leading real estate developers. In 2008, he was appointed as Executive Vice-President for Russia.

He graduated from the Czech Technical University in Prague and was awarded a special grant to study construction engineering at the Iowa State University where he completed one of the highest rated construction engineering programmes in the US.

### Josef Franz Homola
Member of the Board of Directors (Non-Executive)

Professor Josef Franz Homola was appointed as Non-Executive Member of the Board of Directors in July 2008. In 1982 he founded his own engineering office in Frankfurt, Germany, which is now known as ARCADIS Homola AG, and he has been Chairman of the Board of ARCADIS Homola AG since 1999 and a member of the Advisory Board of ARCADIS Germany since 2003. He was also a Member of the Board of the German Association of Project Managers in the Building Industry e.V. ("DVP") between 1990 and 2002.

Since 1996 Professor Homola has been a Fellow of the Royal Institute of Chartered Surveyors ("FRICS") and since 2000 he has worked as a private lecturer at the International Real Estate Business School in the field of 'Economy of Real Estate'. Last year he was appointed an Honorary Professor at the Potsdam School of Architecture.

He graduated from the Czech Technical University in Prague.



## EXECUTIVE MANAGEMENT

### Milan Janků
Company President

### Jana Žejdlíková
Executive Vice-President for the Czech Republic

### Tomáš Laštovka
Executive Vice-President for Russia

### Maroš Bréda
Executive Vice-President for China

Maroš Bréda joined ECM in 2005 as the Senior Project Manager responsible for the Chinese project known as Plot 23. Prior to joining ECM, he worked for a number of international companies in Melbourne, Australia. Since late 2007 he has been an Executive Board Member for the European Union Chamber of Commerce in China (EU CCC). Maroš Bréda was appointed as Executive Vice-President for China in early 2008.

He holds a Masters Degree in Marketing from Victoria University in Melbourne.

### Antonín Jakubše
Executive Vice-President for Corporate Affairs
Secretary of the Board of Directors

Antonín Jakubše joined ECM in 2007 as an Executive Vice-President for Corporate Affairs and Secretary of the Board of Directors. Prior to joining ECM, Antonín Jakubše held several top executive functions in a number of leading Czech companies, including President and Chairman of the Board of Directors of Aero Vodochody a.s., Chairman of the Board of Directors of Czech Airlines and Deputy General Manager and Member of the Board of Directors of the Investment and Post Bank in Czech Republic.

He holds a Masters degree from the University of Economics in Prague.

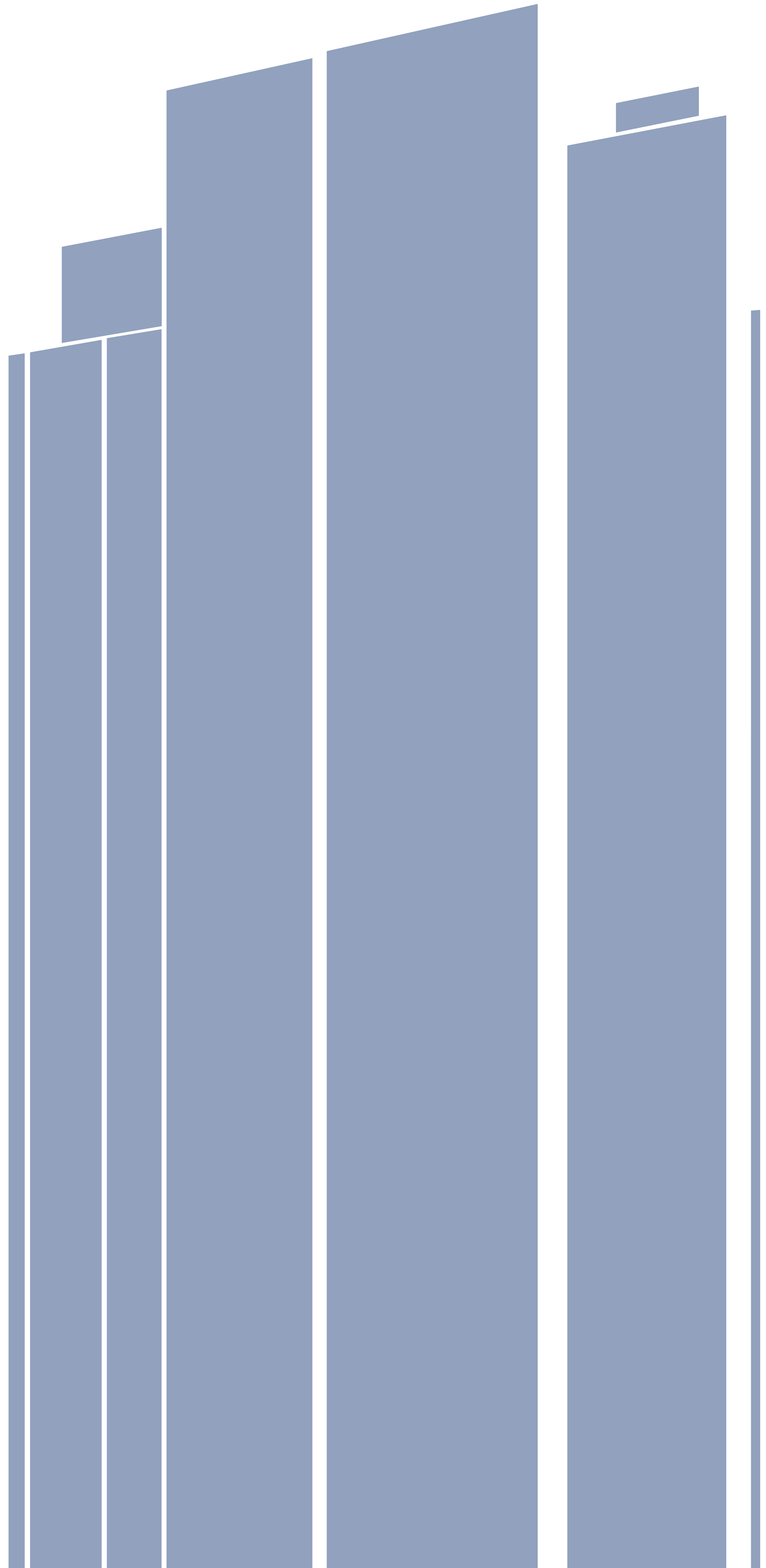
### Kamil Ziegler
Executive Vice-President for Corporate Finance

Kamil Ziegler joined ECM in September 2008 as Executive Vice-President for Corporate Finance. Before joining ECM, he spent a number of years in top managerial positions in the financial and banking sector, including being a Member of the Board and Deputy CEO of Česká spořitelna, Chairman of the Board and CEO of Konsolidační banka, and Chairman of the Board and CEO of Raiffeisenbank Czech Republic. He also served as the CFO of the PPF Group.

He graduated from the Business Faculty of the University of Economics in Prague and completed his studies at the Southern Methodist University in Dallas.

**Metropolis Tower – Offices**
Beijing, China

EVERY GREAT ACT OF AN ENTITY INVOLVES THE ACTS OF A LARGE NUMBER OF INDIVIDUALS



# 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 that shall decide all crucial issues of the Company and of its holding, being supported by the Executive Committee (the "*Executive Committee*") as its body and by Boards of Directors (the "*BU Board*") and Committees (the "*BU Committee*") of the Business Units.

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, having regard to 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 annual report and accounts, half-yearly report, interim management statements and any preliminary announcement of the final results; 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 the business of the Company and to capital projects of its 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 collaterals; (vi) approval of the contracts of the Company or any subsidiary not in the ordinary course of business, for example loans and repayments above EUR 100 million; foreign currency transactions above EUR 100 million; major acquisitions or disposals above EUR 100 million; (vii) 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; (viii) approval of the appointment of the Group's principal professional advisers; and (ix) approval of the overall levels of insurance for the Company, including Directors' & Officers' liability insurance and indemnification of directors.

The Board of Directors shall closely cooperate with the highest executive official of the Company (the "President"), which shall be appointed by the general meeting of shareholders.

With respect to the current unstable situation on the financial markets, the Board of Directors convened on 22 September 2008 a board meeting to discuss and approve a temporary change of decision-making limits for Executive Vice-Presidents for Business Units and the Senior Vice-President for the Excellence Centre. The Board of Directors approved that since 22 September 2008 ("Transition Period") all business contracts, equity drawing, third party loan raising or drawing, loan raising or drawing within the approved budget, ordinary spending within the approved budget and all other business transactions (mainly the creation of any financial liability or payment of existing liabilities) up to EUR 10 million shall be approved by the Executive Vice-President for Corporate Finance. At the moment the Transition Period shall last till the meeting of the Board of Directors to be held in July 2009, when the Board of Directors should prolong such Transition Period, terminate it or decide otherwise.





## 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 the proposing of 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 resources 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.

The Executive Committee is comprised of the following persons: Mr. Milan Janků, Mr. Tomáš Laštovka, Ms. Jana Žejdlíková, Mr. Antonín Jakubše, Mr. Kamil Ziegler, Mr. Maroš Bréda and Mr. Jan Soukup.

## AUDIT COMMITTEE

The Audit Committee shall be made up of at least two but no more than three members appointed by the Board of Directors on the recommendation of the Nomination Committee. The Audit Committee shall meet quarterly and as otherwise required.

The Audit Commitee's duties shall include (i) monitoring of the integrity of the financial statements of the Company, including its annual and half-yearly reports and interim management statements; reviewing significant financial reporting issues and judgements which they contain; reviewing summary financial statements, significant financial returns to regulators and any other statements or publications containing financial information; (ii) reviewing the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group; reviewing all material information presented with the financial statements; (iii) reviewing the effectiveness of the Company's internal controls and risk management systems; (iv) monitoring and reviewing 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 auditors; overseeing the relationship with the external auditors, including the approval of their remuneration, terms of engagement and annual assessment of their independence and objectivity.

The current members of the Audit Committee are Mr. Josef Franz Homola and Mr. Bohumil Kral.

## REMUNERATION COMMITTEE

The Remuneration Committee shall be made up of at least two but no more than three members appointed by the Board of Directors, on the recommendation of the Nomination Committee.

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

The Remuneration Commitee's 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.

The current members of the Remuneration Committee are Mr. Josef Franz Homola and Mrs. Rostya Gordon Smyth.

## NOMINATION COMMITTEE

The Nomination Committee shall be made up of two but no more than three members appointed by the Board of Directors.

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

The Nomination Commitee's duties shall include (i) reviewing regularly the structure, size and composition of the Board of Directors and making of corresponding recommendation for changes; identifying and nominating for the approval of the Board of Directors candidates to fill Board of Directors vacancies; before making an appointment, evaluate the balance of skills, knowledge and experience of the Board of Directors and preparing 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 the appointment of executive vice-presidents and senior vice-presidents; making, in consultation with their Chairmen, recommendations 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, and performance of the executive directors, where the President shall be present and shall have a voting right, and the performance of executive vice-presidents and senior vice-presidents.

The current members of the Nomination Committee are Mr. Josef Franz Homola, Mr. Antonín Jakubše and Mrs. Rostya Gordon Smyth.

## VALUATION COMMITTEE

The Valuation Committee shall be made up of least three members but no more than four members appointed by the Board of Directors on the recommendation of the Nomination Committee.

The Valuation Committee shall meet quarterly and as otherwise required.

Its duties shall include (i) reviewing regularly valuations for financial reporting and sending a copy of its reports to the Board of Directors and the Audit Committee; (ii) providing the Board of Directors with its opinion on the value of projects which the Group plans to acquire or dispose of, 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 investment policy, in particular the broad valuation principles and investment strategy of the Company as laid down by the Board of Directors.

The current members of the Valuation Committee are Mr. Milan Janků, Mr. Kamil Ziegler and Mr. Tomáš Laštovka.

## COMPANY SECRETARY

The Board of Directors shall appoint a Company Secretary whose role will be to provide for compliance with the CG Documentation and to facilitate effective information flow 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 the organisation of meetings of BU Board and BU Committee.

The current Company Secretary is Mr. Antonín Jakubše.

## 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.

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

The remuneration of the executive vice-presidents of the Company and of the members of the boards of directors of the Company's business units 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 members of the Committees of the Board of Directors shall consist of an annual flat fee and shall be determined by the Board of Directors, following a recommendation by the Chairman of the Board.

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

As of 1 August 2008, the Company implemented its organisational structure based on a business unit model, which has been or will be set up for each market or region in which the Company operates. Currently the business units are created in the Czech Republic, Russia and China.

Decision making in relation to projects located in the same geographical location is 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 the business unit holding companies, on the other hand. Each of the three geographical units serves a defined market where management can organise strategic planning more effectively by responding to different local needs. Each business unit has responsibility in the following areas: 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. Financial matters are, however, significantly managed by the Board of Directors of the Company and its bodies. However, certain service companies relating to the business unit's organisational structure have yet to be created. The service companies will be supplemental to the managing, operating and financing of the individual business units and will be under their control.


Corporate Governance Principles

# Remuneration Report

## BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

At an Annual General Meeting ("AGM") dated April 29, 2008, the Shareholders of the Company approved the total remuneration to Members of the Board of Directors ("Board") for both their statutory and managerial functions in the total amount of up to EUR 2,509,000 for the remuneration period from April 29, 2008 until April 29, 2009.

Total remuneration of the Members of the Board each year is subject to the subsequent approval by the Shareholders at an Annual General Meeting of the Company.

During the year 2008, the Company paid EUR 1,252,000 to the Members of the Board of Directors for both their statutory and managerial functions. It also paid EUR 1,318,000 to other members of the Executive Management for the performance of their managerial functions.

In 2008, the Board of Directors adopted a series of cost saving measures, which included a significant reduction in the variable compensation of top management and the freezing of current fixed salary levels.

As disclosed in the IPO Prospectus, the Company committed itself to paying fixed remuneration to any Board Member or any Executive Management Member even after the termination of their mandate, as long as the Company has requested the particular Member to comply with the non-competition clause stipulated in his or her mandate agreement. In the case of the Members of the Executive Management terminated during 2008, the Company chose not to require from them any compliance with the non-competition clause and has agreed, therefore, to pay no further remuneration to these terminated managers.

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

Participants in the MIS are entitled to a set allocation of stock options each year on condition that the Company reaches its specified net profit and/or NAV targets. ECM Group N.V. will assist participants in the MIS by providing collateral for them to obtain the options. In 2008, similarly to 2007, no options under the existing MIS were exercised.

**Total accrued remuneration of the Members of the Board of Directors for the fulfilment of their statutory functions:**

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Total remuneration and benefits paid to the Members of the Board of Directors of ECM REI A.G. | 445 | 527 |
| **Total** | **445** | **527** |

**Total accrued remuneration of the Members of the Executive Management for the fulfilment of their managerial function:**

| In EUR thousand* | 2008 | 2007 |
|---|---|---|
| Total remuneration and benefits paid to the Executive Management | 2,125 | 1,266 |
| Out of which – Members of the Board of Directors of ECM REI A.G. | 807 | 742 |
| **Total** | **2,125** | **1,266** |

**Using average exchange rate for 2008*

**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 | 3,666 |
| Close persons of Members of the Board of Directors | acquisition | 78 |

**Costs of ECM Group related to the services of external auditors in 2007**

| In EUR thousand* | Audit | Other | Total |
|---|---|---|---|
| ECM REAL ESTATE INVESTMENTS A.G. | 229 | 0 | 229 |
| Other companies of the ECM Group | 120 | 0 | 120 |
| **Total** | **349** | **0** | **349** |

**Using average exchange rate for 2008.*



# Corporate Social Responsibility

As a major investor in the region, ECM has always understood the importance of leading by example when it comes to corporate social responsibility. ECM has been involved in a number of beneficial activities for several years, and these span a range of sectors from charitable and educational projects, to those involving sport and culture.

ECM works hard to put something back into the local community, particularly the area where it has its headquarters, and today it is a leading benefactor for the Prague 4 district. The company also takes care to act ecologically, and, most of all, to provide help where it is needed.

## EDUCATION

ECM has been contributing financially to the Tomáš Baťa Foundation for a number of years. The Foundation was set up by Tomáš Baťa with the aim of supporting culture and the education of youth. It organizes courses and educational programs, sponsors specialist publications, conferences and exhibitions, contributes to students' foreign trips and supports children's homes, schools and universities.

For the past three years, ECM has also supported the Plamínkové Elementary School which is located in Pankrác, next to the Company's headquarters and the tallest building in the Czech Republic, ECM's City Tower. ECM's contribution to the school has been used for the modernisation of sporting facilities, which are also used by local citizens, and to provide specialist equipment for underprivileged students.

## CONTEMPORARY ART

The ECM Group is a long-term partner of Art CZ, v.o.s., ECM also sponsors Revue Art – a quarterly magazine focusing on Czech and Slovak art. In addition, throughout the year ECM supports a number of exhibitions organized for young and up-and-coming artists.

## SPORT

The ECM Group has sponsored two of the Czech Republic's biggest tennis tournaments since 2001. The combined tournaments are known as the ECM Prague Tennis Open and include both a men's ATP Challenger and a women's WTA Tour event. The popularity of this tournament increases year by year and attracts a number of the tennis world's leading players, and its importance was confirmed in 2006 with the participation of the legendary Martina Navrátilová, and again in 2008 when Thomas Muster, the former world number one and winner of the French Open, took part in an exhibition match at the end of the tournament.

ECM also supports the best wheelchair tennis player and current Czech wheelchair national team player Miroslav Brychta.

## MUNICIPALITY PRAGUE 4

As mentioned, ECM aims to be a 'good neighbour' in locations where it realizes its projects. It has participated in children's days, in events organized by the Prague 4 Municipality (for example the 'We are Prague Citizens Event' and the special 'Christmas Fair' where the company contributed the gifts for children from Prague 4).

ECM has also been a long term participator in the annual "Iron Fireman" event, which is the most difficult competition in Europe for professional firemen, and was this year held for the first time in the CITY Tower building. The CITY Tower also hosted the first 'Run-up' competition that is a series of several competitions in the Czech Republic requiring participants to run up several flights of stairs at speed, with the winner the person that reaches in the top in the fastest time. Both of these events were attended by many people including a number of VIPs and media.

Towards the end of 2008, ECM also began a new co-operation with a local Foundation that supports handicapped people by organizing a charity concert in the CITY Tower lobby. ECM is planning to organise further events for this charity during forthcoming years.

**CCS Headquarters – Offices**
Prague, Czech Republic

ANY GREAT WORK OF ART
REVIVES AND RE-ADAPTS
TIME AND SPACE

# Market Overview



## CZECH REPUBLIC

### Market Summary

In the office market, the first half of 2008 already started to show signs of a significant slowdown in real estate investment activity compared to the unprecedented levels of 2007. According to CB Richard Ellis, investment volume in the first half of 2008, with EUR 510 million, represented less than half of that reached in the second half of 2007 and a third of that of the first half of 2007. Closing transactions started to take longer and became more difficult, with banks having much more restrictive lending policies and focusing on strengthening their own balance sheets and, additionally, the low level of liquidity was soon translated into a growing uncertainty about accepted yield levels, thus leading to discounts in valuations.

On a more positive note, as supply of premium office space is still far below demand, Prague vacancy rates continue to be low, on average 3.77% in Prague's inner city (DTZ). Rental values therefore continued to increase slightly in 2008, with prime headline rents reaching EUR 21.5 to 23 $m^2$ per month. By the third quarter of 2008, newly leased office space had already surpassed the total amount let during 2007.

Prague continued as the main focus of activity within the Czech Republic, but several of the country's bigger cities also saw increased interest, with many high profile developments in Ostrava, Pilsen and České Budějovice coming to the market.

Retail activity remained strong, although the forecast for the year was for retail sales growth to fall to 2%, the lowest growth in ten years. Prime retail rents remained stable across the sub-sectors of all Czech cities, but the unavailability of quality high street space in cities such as Brno and Ostrava forced retailers to search for other formats, such as the very successful retail parks. With continuing strong consumer demand carrying over from previous years, therefore, the retail field remained a very good investment.

The Czech residential market continued to boom into the early part of 2008. The continuing demand for upper-mid to high-end residential projects far exceeded supply, and this saw many developers looking to build in the Czech regions as well as continuing with major developments in Prague. However, with the growing scarcity of financing during the $2^{nd}$ half of 2008, several major developers felt obliged to start discounting the prices of their projects or offering other "perks", particularly in Prague but also in other regional developments, e.g., apartments in Špindlerův Mlýn and similar locations.

The increasingly strong Czech Crown against the Dollar/Euro also had a significant effect, with many developers seeing a significant reduction in their rental income, the trend, particularly for large scale developments, being for all leases to be in Euros.

### ECM in the Czech Republic

ECM has been one of the leading European real estate developers in the Czech Republic since the early 90'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.

ECM prides itself on developing high quality projects, and all of those under construction during 2008 were secured either by senior or acquisition financing. The ECM flagship development, the CITY project in Pankrác, became a reality when, in January 2008, ECM consolidated its ownership of the development land by acquiring the last portion from a private owner, with the end result that the whole area is now under ECM's control.

Since then, zoning permits have been received for both the CITY Epoque residence and hotel project (January, 2009) and the CITY Deco office building, with demolition work starting on CITY Deco during the course of 2008. Building permits for both the CITY Deco and the CITY Element are due during the course of 2009.



#### *Office*

The beginning of 2008 saw ECM's most important project to date, the CITY TOWER building, open for business. Designed by the internationally renowned architect, Richard Meier, the 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.

Since its completion, the CITY TOWER has won a number of prestigious awards, including a "Special Prize from the Jury" in the prestigious 'Best of Realty, 2008' international competition and the "Best Office Development" in the "CiJ Awards, 2008".

The CITY Tower is more than 80% let and is home to many household name tenants, including the anchor tenant, one of Europe's leading banks (the Austrian Raiffeisenbank), companies from the ECM Group, and many others. More importantly, the CITY TOWER is the first of several high-quality buildings that form part of ECM's CITY project portfolio, a group of buildings and other facilities that will, in time, form a 'city within a city'.

ECM continues to own the CITY Empiria, another office building in the CITY portfolio that is a popular option for both international and local companies and that is presently 98% let. Tenants include the financial authority of Prague 4, Honeywell, Central Group, Zentiva, DHL, Intersport and others. It also owns the Varenská Office Centre in Ostrava, one of the tallest buildings in the city that was completed at the end of 2008, and is 100% let to the TietoEnator Czech company.

Another building in ECM's portfolio is the office building known as the CCS Building in Prague 8.

#### *Retail*

As is the case with all of ECM's developments, its retail developments are high quality projects that benefit from excellent locations in prime development regions. During 2008 ECM continued with the development process of its high-profile 30,000 $m^2$ retail shopping centre "Kaskády Zlín" in Zlín, by managing, amongst others, an "Environmental Impact Assessment" (EIA) procedure for the project. It is expected that this project will receive its final EIA in Spring, 2009.

ECM is now starting work on a second retail scheme, the 'Stromovka' project in České Budějovice which will contain approximately 35,500 $m^2$ of net retail and shopping space.

#### *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 the "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.

The Diplomat Center in Pilsen, is another mixed-use project by ECM that was successfully exited in 2008 through a forward sale agreement with CA Immo International.

ECM's CITY Epoque Hotel, however, is a new development that is part of the overall CITY project. Initial work to obtain the necessary permits for its construction began in 2008 and its zoning permit was successfully received in January, 2009.

#### *Residential*

ECM focuses on luxury residential projects such as the CITY Epoque Residence and Terasy Unhošť and this has proved a successful strategy as there is still a high demand for property at the high end of the residential market.

The first phase of the Terasy Unhošť project (14 houses) was completed and received its use permits in 2008, and the second phase is now underway. Most of the houses from the first phase are already sold.

The CITY Epoque Residence project has continued on target during 2008, and customer demand for these unique apartments continues to exceed the company's expectations, indicating that this will prove to be an exceptionally successful project. With 65 of the apartments already reserved, the CITY Epoque Residence is expected to provide a very high rate of return.

### Facility Management Activities

ECM Facility continued its successful expansion process during the course of 2008. In the first half of 2008, it succeeded in increasing its 50% stake in the company Optiservis to 100%, giving ECM full control of the company. Optiservis is a specialized facility management company based in Prague with an interesting portfolio of residential and commercial properties.

In 2008, ECM Facility also managed to acquire a number of significant facility management contracts such as those with two of the Czech Republic's biggest companies, Vítkovice Steel and ČEZ. ECM Facility also benefited from its synergie with its mother company ECM REI A.G. by obtaining the contract relating to the tallest administrative building in the Czech Republic – the CITY Tower – with a total space of 44,000 m².

ECM Facility manages a significant portfolio of buildings, including the biggest sporting arena in the Czech Republic, the $O_2$ Arena, the headquarters of the Všeobecná zdravotní pojišťovna (general health insurance company), Mrakodrap Tomáše Bati (Tomáš Baťa's, 'skyscraper building') in Zlín, and a number of other buildings belonging to the company Stavba silnic a železnic (roads and railways construction works).

ECM Facility finished 2008 with total revenues of EUR 9.7 million, representing an increase of over 40% compared to 2007.

## POLAND

Of all the countries in Central and Eastern Europe, Poland has seen the biggest boom in its economy over the past ten years, and the first half of 2008 continued in much the same vein, with yet further foreign investment, unemployment falling, and an ongoing increase in the demand for high quality property in all sectors. When the global financial crisis really began to take hold in the second half of 2008, observers waited for the effect to be felt on the Polish real estate market, but, to date, there has been a much less significant impact, although there is sure to be a slowdown in investment during 2009 due to the difficulties that investors will have in obtaining financing.

In Warsaw alone, the first half of 2008 saw new commercial office supply increase by nearly 150,000 m², with another 500,000 m² under construction and plans for nearly one million m² of new office space to appear on the market during the course of the next three or four years. With continued high demand and the decrease of vacant space (just 2.1% at the end of the second quarter of 2008) rents continued to increase, although these started to level off during the third quarter as companies waited and watched what the effect of the global financial crisis would be.

In Poznaň, too, where ECM has its first project in Poland, demand for high quality office, residential and retail space continues to be strong with a total office vacancy rate at the end of the second quarter of 2008 of just 1.2%

In the retail sector, Warsaw remains the largest and most attractive market for shopping centre operators, with a continuing opportunity for growth, high income per capita and a low unemployment rate. By the end of the second quarter of 2008, there were 32 shopping centres operating within the city and its outskirts, but still plenty of available space for future developments, and with many of the other major cities of Poland still offering significant opportunities for retail developers, the retail market showed no sign of slowing down in the second half of 2008, despite the problems in obtaining finance.

Of all the real estate sectors, however, it is the Polish residential market that continues to attract the most interest, and, despite the economic situation, developers of exclusive residential real estate, in particular, continued to do well throughout the whole of 2008. With so much of the focus having been on the Warsaw residential market over the past few years, however, it is the cities of Krakow, Wroclaw, Gdynia and Poznaň that are seeing the biggest interest, and whilst development started to slow down in the second half of 2008, the demand for high quality residential property remained high.



### ECM in Poland

ECM made its first move into the Polish real estate market in 2007, when it acquired 130,000 m² of zoned residential land in Poznaň. This was the first acquisition by ECM in Poland and the purchase price also included a 100,000 m² private lake which is likely to be utilized in the overall plan for the development.

Throughout 2008, ECM's Polish team has been working on stabilizing the location of its Poznaň project and agreeing on a new concept for the development that has been drawn up by the architectural studio Knesl-Kynčl. It has also started to deal with changes to the existing ground plan and working on obtaining the building permit for what will be, essentially, a whole new town, built on a Greenfield site.

The completed scheme will fulfil every requirement for modern living, with modern, high quality housing ranging from flats and town houses to luxury urban villas, a number of small shops, a kindergarten, primary school and playground for children, and a restaurant overlooking the lake. The scheme should also prove popular with the local community, not only because of the new employment and other opportunities that it will bring, but also due to its green and natural environment.

With its close proximity and connections to Poznaň, and major road links to Warsaw and Berlin, the completed project is expected to be extremely popular when it goes on the market and should offer great added value.

In the long term, ECM sees further potential in both residential and other segments in Poland, and it will carefully observe all opportunities with the overall aim to transfer expertise and know-how from the Czech Republic and other geographies.

## RUSSIA

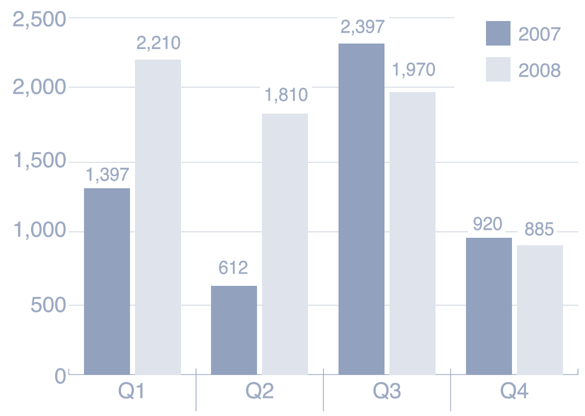
### Market Summary

The beginning of 2008 saw the Russian economy continuing on the growth curve of previous years, in the main supported by rising oil prices. In the second half of 2008, however, the Russian economy practically collapsed, with the liquidity of the financial markets drying up, corporate debt growing steeply, and the consequent outflow of foreign capital followed by the rouble's devaluation and falling commodity prices.

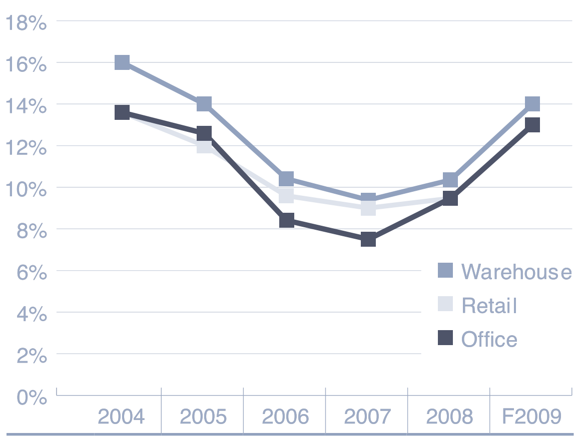
Unlike Western and Central Europe, where the decline was gradual, the economic environment in Russia changed virtually overnight and investment and development activities came more or less to a standstill.

According to the international real estate agents, Cushman & Wakefield, the Russian office market stopped growing at the end of the 3rd quarter, and entered a period of very low market activity. Leasing activity in December registered its lowest level since 2003, vacancy rates in Moscow alone, which had been on the rise since December 2007, had grown by 7.4%, and by the end of the year the average Moscow vacancy rate had increased by up to 15.3%. Several new office projects are due in 2009 and it is expected, therefore, that the vacancy rate will grow even higher.

**Real estate investment volumes, (USD million)**



**Historical yields, Moscow, (Percent)**




| | 2004 | 2005 | 2006 | 2007 | 2008 | F2009 |
|---|---|---|---|---|---|---|
| **Office** | 13.50% | 12.50% | 8.50% | 7.50% | 9.35% | 13.00% |
| **Retail** | 13.50% | 12.00% | 9.50% | 9.00% | 9.35% | 13.00% |
| **Warehouse** | 16.00% | 14.00% | 10.50% | 9.25% | 10.43% | 14.00% |

The Russian retail market also showed a significant slowdown in 2008, with new construction of premium retail space falling by 20% in Moscow compared to 2007. Retail rents suffered by up to a 30% decline and they are not expected to recover in 2009, as supply of completed retail space will most probably exceed demand.

Today, the Russian economy is perceived as one of the most badly hit by the global financial crisis. However, Mr. Tomáš Laštovka, Executive Vice-President for Russia and member of the Board of Directors of ECM REI AG, believes there are still interesting opportunities to be explored and comments: "*Despite the turmoil on the financial markets and the generally negative sentiment to the real estate sector, we at ECM strongly believe that the Russian real estate market can offer attractive returns and opportunities, if professional management skills are in place. These opportunities can only be exploited, however, if there is daily supervision of investments made in Russia and a 'hands on' approach to problem resolution. Since most of the written and perceived rules governing the real estate and investment sectors have abruptly changed with the world financial crisis falling on Russia, flexibility, international expertise, risk management, structured decision-making and market intelligence have all become vital disciplines to the success of the business*".

## ECM in Russia

ECM entered the Russian market in 2005, with a particular view to investing into retail developments in communities and neighbourhoods outside the capital city. It made its first investment in 2006 by acquiring a retail site in Ryazan for a modern shopping center development.

In November 2008, ECM sold a 15% stake in the Ryazan Shopping Center project, for a total consideration of approximately EUR 5.18 million. ECM and PSJ will form a joint venture to fund the project equity requirements proportionally. PSJ's Russian construction division is expected to become the general contractor responsible for the construction of the project.

The Ryazan Shopping Center completion is scheduled for the end of 2010. The single-floor shopping mall will offer its visitors approximately 70,000 m$^2$ of retail space and 3,500 parking places. Ryazan, a key industrial city in the region with approximately 600,000 citizens, is located 180 kilometres south-east of Moscow. The Ryazan Shopping Center will be located next to two major roadways; the main highway to Moscow and the Ryazan ring-road.

In 2007, ECM acquired its first office project in south-eastern Moscow, to be known as the East Point Office Park. This project will offer 75,000 m$^2$ of grade A office space conveniently located at the main 4$^{th}$ ring road intersection.

In 2009, ECM will put extra effort into developing its two projects in Russia. The capital invested into these projects will be allocated very selectively into activities that generate the highest value added and those processes that take advantage of the disrupted competition schemes, and other new trends in the Russian economy.

ECM will also combine its development know-how and local Russian expertise in providing consulting and management services to western investors, banks and property owners aiming to safeguard and further develop their property investments in Russia



## CHINA

### Market Summary

China, and Beijing in particular, saw a building boom of historic proportions in the seven years leading up to the Olympic Games in the summer of 2008. As was the case elsewhere in the world, however, by the end of the year, the slow-down in the real estate market had come to a near standstill, and many of the country's biggest developers found themselves burdened with developments for which there was very little demand.

Worst hit was the residential "mass market", where new developments, mostly of apartment blocks, comprised more than half of the real estate market in Beijing. A combination of rising inflation, the banks reining in their lending, and the authorities restricting luxury property development and ordering more housing for the mass market, has meant that there has been an oversupply of cheaper flats coming to the market, whilst prices for the luxury sector continue to rise.

The commercial and retail markets have also seen changes; the pre-Olympic rules that banned major construction projects during the lead up to the Beijing Olympics boosted construction in advance, causing an oversupply of low quality commercial property coming available at exactly the same time, whilst the worldwide economic crisis that took hold shortly after the Olympics gave many of the bigger developers some serious financing problems in finalizing construction.

In 2009, it is expected that rents will slightly drop and the vacancy rate will increase due to the impact of the global economic recession and the additional 1.89 million m$^2$ of prime retail supply area, which are scheduled to come to the market in course of 2009.

The Beijing office market weakened in the fourth quarter of 2008 as the global financial crisis worsened and began to affect the Chinese economy. Increasing numbers of foreign-funded enterprises adopted a wait-and-see attitude and more companies postponed their relocation plans or temporarily halted their planned expansions. Market demand dropped sharply within a short period and property owners began to adjust their rental quotations downwards in an attempt to stimulate market demand. By the end of the fourth quarter, the average rental quotation of prime office space in Beijing was RMB 200.6 per m$^2$, a drop of 2.5% quarter-on-quarter, whilst the sales price of prime office space in the fourth quarter of 2008 rose by 2.1% quarter-on-quarter to RMB 24.187 m$^2$.

In 2009, the prime office market is expected to experience similar trend to the prime retail market, with additional supply of 1.17 million m$^2$ coming to the market, exerting thus further pressure on rental and vacancy levels. However, the negative trend could be to some extent outweighed by several revisions to the government regulation on investments, including such measures as tax incentives for locals, clarification of laws for foreigners acquiring real estate and granting authority to local governments to issue their own rules on property markets.

As a general remark however, it should be understood that the country itself is of such a size, and the various areas differ to such a degree, that the situation in one locality may be very different to the situation in another; hence the importance of each local government being granted its own autonomy. Southern China, for example, where the majority of manufacturing and export business is based, saw prices reducing by 20–30% during 2008, which had a significant effect on GDP, whilst Beijing has been unaffected by this business sector has a positive outlook for the commercial and retail segment.

### ECM in China

ECM was one of the first Central and East European investors to move into China, opening its branch office in Beijing in 2005, and this has proved to be a very wise move that will continue to reap significant benefits over the next few years.

In 2007, ECM expanded its investment portfolio through the acquisition of a retail shopping centre known as the ECMall, as well as the purchase (and then exercise) of an option to acquire an office building already under construction and called the Metropolis Tower. Both buildings are part of a multi-functional development project in Zhongguancun Zone, Beijing's 'Silicon Valley'.

At the end of December, 2007, ECM sold a 40% stake in the two projects to Metro Holding Limited and HSBC NF China Real Estate Fund, who, together, provided financing for the projects in the region of approximately USD 69.1 million, thereby enhancing the financial flexibility and overall economics of the two projects.

Construction began on the ECMall retail shopping centre during the course of 2007 and, despite a three month delay during the summer when all construction was halted by the Government because of the imminent Beijing Olympics, by December, 2008 the shell and core of the building was complete and all mechanical and technical equipment was in place, thereby enabling it to receive final building approval. Of particular note is the fact that by the end of the year the ECMall was already 25% pre leased, with several major international brands amongst the contracted tenants – many under the same roof for the first time in China. This is a significant achievement since it is quite normal for retail malls in China to open with only 50% occupancy, and to have 25% pre-leased at such an early stage is a significant success – the opening of the Mall is due to be held in September, 2009.

The Metropolis Tower is also due to open at the end of August 2009. Even though it is being constructed according to the original time schedule, it, too, was delayed by the Olympics, so the fact that it should open in late summer, 2009 is another achievement on behalf of ECM's Chinese office.

Despite the office market being more affected than retail by the global slowdown, the Metropolis Tower, with approximately 35,500 $m^2$ of gross floor area, is expected to be fully let by the time of completion, as the Zhongguancun Zone area of Beijing, where the development is based, is still seeing a great demand for high quality office space from IT and financial companies.

ECM has built a very successful team in Beijing, with 17 full time employees and numerous external consultants – presently there are more than 1,000 workers employed on the ECMall and Metropolis projects alone. With such a successful team and its significant know-how, ECM will not slow down after these two projects are completed, and will be looking for new potential projects during the course of 2009.

# Financial Analysis



## INTRODUCTION

As is the case with the majority of real estate companies worldwide, ECM's financial results have inevitably been negatively impacted by the ongoing financial and economic crisis, driven mainly by two factors. First, the global negative real estate market conditions have been reflected by significant expansions in yields, which have led to a downward adjustment in the value of ECM's portfolio. Second, the worsening economic outlook for the near future has resulted in an increase in provisions for hotel operations as there is a strong assumption that the travel and hotel business, in particular, will be amongst the biggest losers in this present crisis.

Further negative impacts on ECM's balance sheet relate to rather conservative, but in times of such uncertainty, we believe, the positively viewed treatment of such items as deferred tax assets and goodwill which have undergone a number of testing procedures and, on several occasions, have been written off.

All of the above-mentioned factors resulted in a set of measures taken by ECM. The most important one was the strengthening of ECM's balance sheet by the issuing of additional shares in the Step up Equity Programme in September and, more importantly, by a Private Placement in the amount of EUR 24 million in December. Further measures include the reduction in the number of personnel by approximately 12% in the real estate business (excluding hotel operations and facility management) compared to 2007, the prioritisation of selected projects and a very strict cash-flow and cost management programme.

Special attention is now being drawn to the facility management business, where ECM still sees a great opportunity and potential for a future healthy portion of income in the form of service fees.

In spite of these gloomy outlooks, however, ECM still stands strong on its rental business, where its tenant mix continues to be built on solid fundamentals.

It is also very important to point out that the decrease in the value of ECM's portfolio and the increased provisions for its hotel business are, at least for now, non-cash items without any actual impact on ECM's cash-flow position.

## NAV

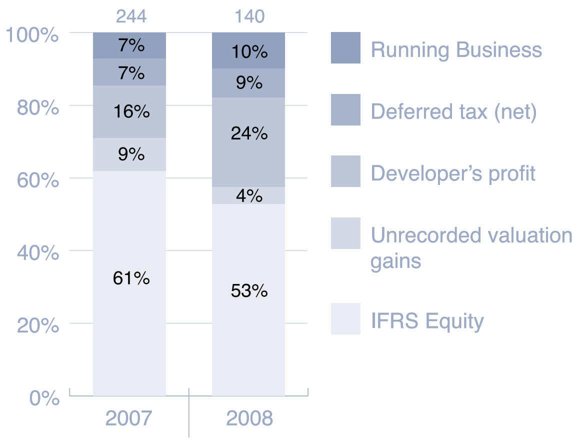
ECM's NAV is calculated in accordance with EPRA methodology on the basis of an independent external appraisal of the company's development and investment projects, and is subsequently further verified by its auditors. As of 2008, valuations were provided by King Sturge for projects in the Czech Republic, CB Richard Ellis for the company's two projects in China, Cushman & Wakefield Stiles & Riabokobylko for East Point Office Park in Moscow, Colliers for the Ryazan Shopping Mall and Reas Sp. z o.o. for the Poznaň Housing Development.

ECM reported total NAV of EUR 140 million as of year-end 2008, a decrease of 43% compared to the EUR 244 million reported for 2007. Among the main factors affecting the NAVs was the decrease in the value of the company's investment property as well as the provisions created for its hotel operations.

| | 12/31/2008 | 12/31/2007 |
|---|---|---|
| **Total NAV** (EUR million) | 140 | 244 |
| **NAV per share** (EUR)* | 20.3 | 57.3 |

** NAV per share calculated using the end-of-period number of shares.*

**NAV structure (EUR million, Percent)**

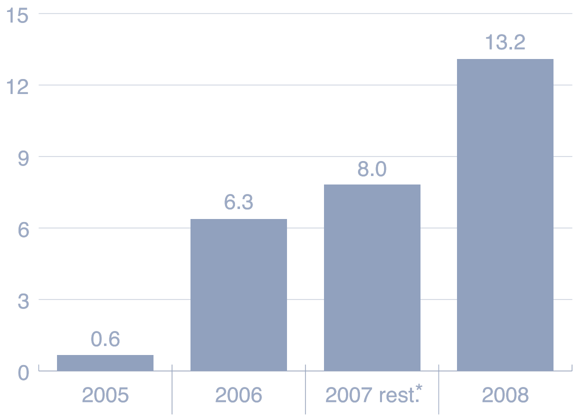



*Unrecorded valuation gains include valuation of ECM's running businesses.*

## NET RENTAL AND RELATED INCOME

In 2008 ECM reported a strong 165% $Y_oY$ growth in net rental and related income to EUR 13.2 million, mainly supported by growing gross rental income (+173% $Y_oY$) and service income (+192% $Y_oY$), 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 2008 were CITY Empiria, City Tower, CCS Headquarters and CITY Point, whilst the main contributors of service income for 2007 were the Facility Business, the Hotel EUROPORT and the Diplomat Pilsen center.

**Net rental and service related income (EUR million)**



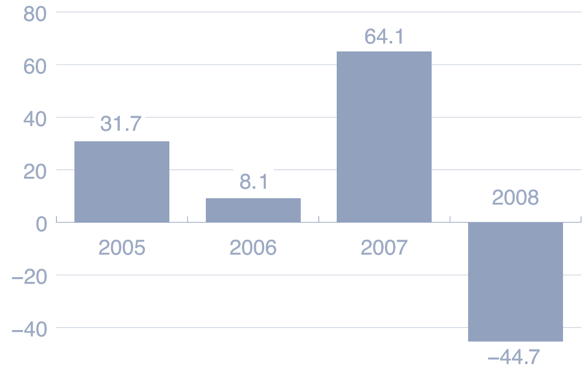

**Change in methodology during 2008.*

## NET VALUATION GAINS AND LOSSES ON INVESTMENT PROPERTY

ECM reported a net valuation loss in the amount of EUR –44.67 million compared to its net valuation gain of 72.43 million for the accounting period ending 12/31/2007.

The valuation loss was mainly driven by the drop in value of projects such as City Tower, City Empiria, Epoque Residential, City Deco and City Element.

**Net valuation gains on investment property (EUR million)**




## PROFIT ON THE DISPOSAL OF TRADING PROPERTIES

The Company sold the Hotel Diplomat in Pilsen in August 2008. As a result of that, an accounting loss of EUR 27,000 has been booked as most of the total profit of EUR 5.5 million has already been booked in previous accounting periods in the form of property revaluation.

## OTHER INCOME/EXPENSES

Included amongst the largest items within 'other income' and 'other expenses' are:

- Creation of provisions for hotel operations in the amount of EUR 15 million
- Goodwill write-offs in the amount of EUR 5 million
- Additional write-offs in excess of EUR 2 million

## FINANCIAL INCOME/EXPENSES

ECM reported net financial expenses of EUR 24.0 million for 2008, compared to net financial expenses of EUR 12 million in 2007;

Interest expense and interest charges grew by 225% $Y_oY$ to EUR 24.6 million in 2008.

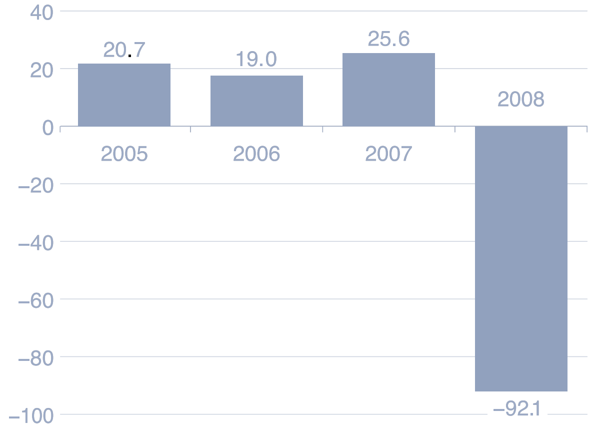
Most of the increase relates to Eurobonds in the amount of EUR 94.52 million, which were issued in October 2007, and also to the fact that, following the end of the construction phase on the City Tower project in December 2007, interest from loans associated with this project are no longer being capitalized and they therefore have to be expensed through the Profit and Loss Account.

## PROFIT FOR THE PERIOD

For 2008 ECM reported a net loss of EUR 92.1 million compared to a profit of EUR 25.6 million reported for 2007.

For 2008 the company reported basic and diluted earnings per share of EUR –14.9 compared to EUR 6.4 and EUR 5.0 respectively in 2007.

**Profit for the period (EUR million)**

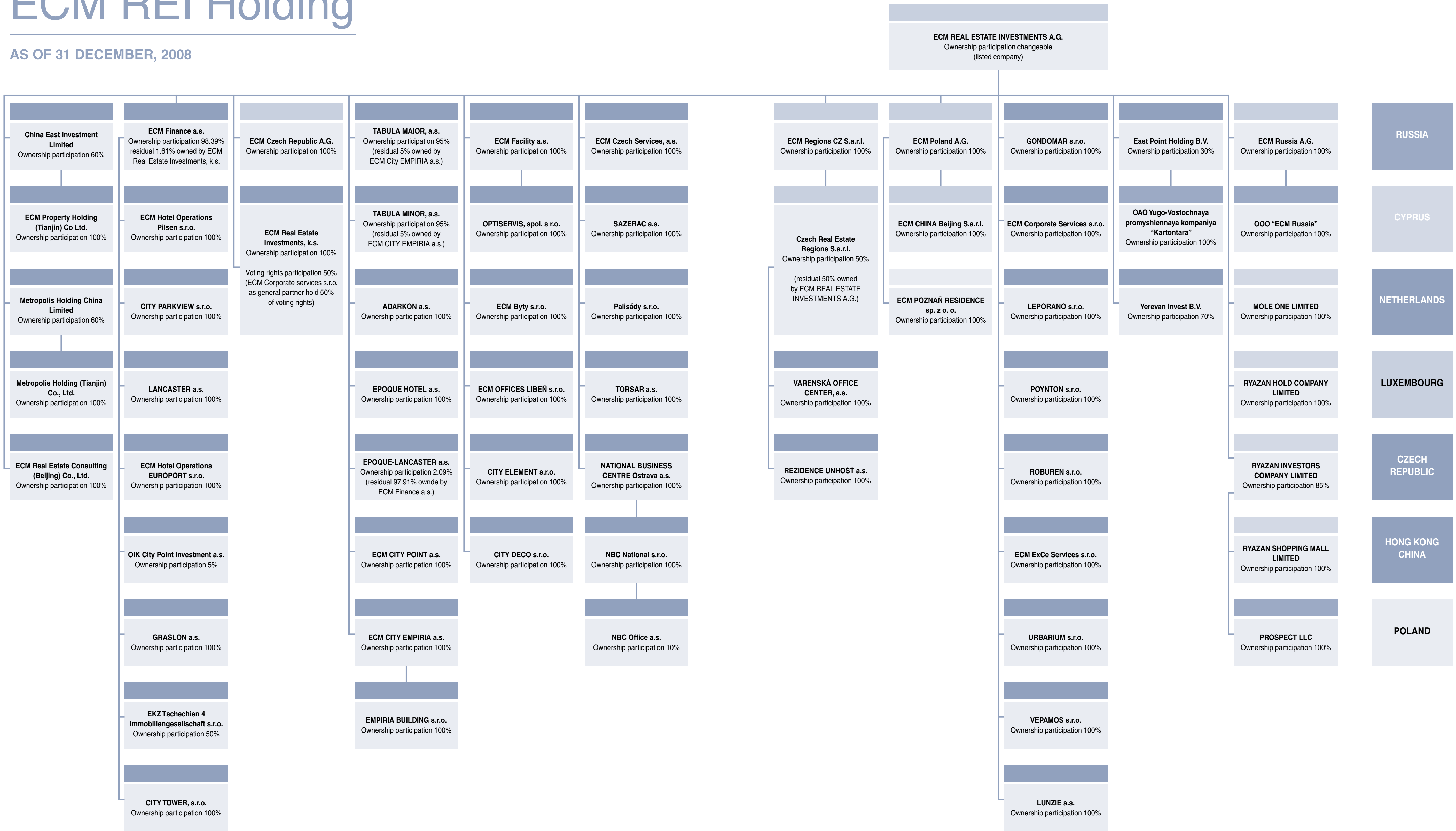



**ECMall – Shopping Centre**
Beijing, China

IT IS NOT A QUESTION OF HOW WELL EACH PROCESS WORKS, BUT HOW FAR, HOW QUICKLY AND HOW SMOOTHLY THEY WILL GET YOU ALL TOGETHER.

# Organigram of ECM REI Holding

AS OF 31 DECEMBER, 2008




**Ryazan Shopping Centre**
Ryazan, Russia

VISION IS THE ART OF SEEING WHAT
IS INVISIBLE TO OTHERS

# Consolidated Financial Statements

**Deloitte.**

Deloitte SA
Audit, Tax, Consulting,
Financial Advisory Services
560, rue de Neudorf
L–2220 Luxembourg
B.P.1173
L–1011 Luxembourg
Tel: +352 451 451
Fax: +352 451 452 401
www.deloitte.lu

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders ECM Real Estate Investments A.G. dated 29 April, 2008, we have audited the accompanying consolidated fiancial statements of ECM Real Estate Investments A.G., which comprise the balance sheet as at 31 December, 2008, and the income statement, statement of changes in equity and 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 consolidated financial statements*

The board of directors is responsible for the preparation and fair presentation of these consolidated fmancial 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.

### *Auditor's responsibility*

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 auditor's judgement, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial 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 financial position of ECM Real Estate Investments A.G. as of 31 December, 2008, and of its financial performance and its cash flow 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 consolidated management report, which is the responsibility of the board of directors, is consistent with the consolidated financial statements.

Deloitte SA Reviseur d'entreprises

Olivier Lefévre
Partner

20 March, 2009

# Consolidated income statement

## FOR THE YEAR ENDED 31 DECEMBER 2008

The financial statements were authorised for issue by the directors on 20 March 2009.

**In EUR thousand, unless stated otherwise**

| | Note | 2008 | 2007 |
|---|---|---|---|
| Gross rental Income | 3.3 | 12,181 | 7,054 |
| Service Income | 3.3 | 23,612 | 12,285 |
| Service charge Income | 3.4.1 | 2,979 | 1,681 |
| Service charge expenses | 3.4.1 | (4,213) | (1,339) |
| Property operating expenses | 3.4.2 | (21,380) | (11,711) |
| **Net rental and service related Income** | | **13,179** | **7,970** |
| | | | |
| Valuation Gains on investment property | 3.5.1 | 32,621 | 74,397 |
| Valuation Losses on investment property | 3.5.2 | (77,295) | (1,954) |
| **Net valuation (Loss)/Gain on investment property** | | **(44,674)** | **72,443** |
| | | | |
| Proceeds from the sale of investment property | 3.6 | 1,655 | 32,124 |
| Carrying value of investment property sold | 3.6 | (1,682) | (28,161) |
| **(Loss)/Gain on the disposal of investment property** | | **(27)** | **3,963** |
| | | | |
| Proceeds from the sale of financial investment in subsidiaries and associates | 3.7 | 5,667 | 2,971 |
| Carrying value of financial investment in subsidiaries and associates sold | 3.7 | (5,893) | (3,185) |
| **Loss on the disposal of financial investments** | | **(226)** | **(214)** |
| Proceeds from the sale of trading property – inventory and related accounts | 3.8 | – | 2,762 |
| Carrying value of trading property – inventory and related accounts sold | 3.8 | – | (2,448) |
| **Gain/(Loss) on the disposal of trading property** | | **–** | **314** |
| | | | |
| Personnel expenses | 3.9 | (3,821) | (2,912) |
| Administrative expenses | 3.10 | (13,799) | (10,459) |
| | | | |
| Impairment of trading property | 3.11.1 | (1,177) | – |
| Impairment of goodwill | 3.11.2 | (4,995) | (325) |
| Other Income | 3.12 | 4,142 | 787 |
| Other expenses | 3.13 | (22,839) | (33,669) |
| **Net other (expense)** | | **(23,692)** | **(33,207)** |
| | | | |
| **Net operating (Loss)/Profit before net financial (expense)** | | **(74,237)** | **37,898** |
| | | | |
| Interest Income | 3.14 | 1,206 | 901 |
| Interest expenses | 3.14 | (24,627) | (10,928) |
| Net other financial (expense)/Income | 3.15 | (544) | (2,006) |
| **Net financial (expense)/Income** | | **(23,965)** | **(12,033)** |
| | | | |
| Share of the profit of associates and joint venture | | 54 | 12 |
| **(Loss)/Profit before tax** | | **(98,148)** | **25,877** |
| Current tax expense | 3.16.1 | (758) | (1,284) |
| Deferred tax Income | 3.16.1 | 6,799 | 971 |
| **Income tax Income/(expense)** | **3.16.1** | **6,041** | **(313)** |
| **(Loss)/Profit for the period** | | **(92,107)** | **25,564** |

| | Note | 2008 | 2007 |
|---|---|---|---|
| Attributable to: | | | |
| Equity holders of the parent company | | (102,489) | 25,833 |
| Minority interest | | 10,382 | (269) |
| **Profit for the period** | | **(92,107)** | **25,564** |
| | | | |
| **Earnings per share** | | | |
| Basic earnings per share (EUR) | 3.27.7 | (23.4) | 6.4 |
| Diluted earnings per share (EUR) | 3.27.7 | (14.6) | 4.3 |



# Consolidated balance sheet

## AS AT 31 DECEMBER 2008

**In EUR thousand**

| | Note | 12/31/2008 | 12/31/2007 |
|---|---|---|---|
| Investment property | 3.17 | 508,518 | 377,283 |
| Investment property under construction | 3.18 | 57,517 | 28,963 |
| Property, plant and equipment | 3.19 | 18,908 | 13,967 |
| Intangible fixed Assets | 3.20 | 451 | 421 |
| Goodwill | 3.20 | 3,256 | 7,793 |
| Pre-paid operating lease payments | | 7 | – |
| Investments in associates and joint venture | 3.21 | 76 | 24 |
| Other investments | 3.21 | 312 | 317 |
| Advance payments for shares | | – | 211 |
| Other loans | 3.22 | 2,526 | 7,802 |
| Long term receivables | | – | – |
| Deferred tax Assets | 3.16.4 | 14,180 | 14,531 |
| **Total non-current Assets** | | **605,751** | **451,312** |
| | | | |
| Assets held for sale | 3.23 | – | 27,353 |
| Trading property | 3.24 | 13,549 | 13,534 |
| Income tax receivable | 3.16.3 | 297 | 165 |
| Trade and other receivables | 3.25 | 24,700 | 33,849 |
| Cash and cash equivalents | 3.26 | 33,627 | 36,753 |
| **Total current Assets** | | **72,173** | **111,654** |
| | | | |
| **TOTAL ASSETS** | | **677,924** | **562,966** |

| | Note | 12/31/2008 | 12/31/2007 |
|---|---|---|---|
| EQUITY | 3.27 | | |
| Issued capital | | 11,676 | 7,229 |
| Share premium | | 67,874 | 44,467 |
| Reserves | | 193 | 175 |
| Equity instruments | | 7,438 | 7,438 |
| Retained earnings | | (29,469) | 75,648 |
| Translation reserve | | 16,873 | 12,831 |
| **Total equity attributable to equity holders of the parent company** | | **74,585** | **147,788** |
| | | | |
| Minority interest | | 20,761 | 168 |
| **Total equity** | | **95,346** | **147,956** |
| | | | |
| LIABILITIES | | | |
| Interest-bearing loans and borrowings | 3.28 | 221,962 | 149,797 |
| Convertible bonds | 3.29 | 86,015 | 80,253 |
| Other bonds | 3.30 | 30,167 | 30,338 |
| Long-term Liabilities from derivatives | 3.29 | 10,458 | 5,521 |
| Other long-term payables | 3.33 | 12,157 | 17,986 |
| Provisions | 3.32 | 15,053 | 1,000 |
| Deferred tax Liabilities | 3.16.4 | 27,303 | 31,908 |
| **Total non-current Liabilities** | | **403,115** | **316,803** |
| | | | |
| Liabilities related to Assets held for sale | 3.23 | – | 25,362 |
| Trade and other payables | 3.31 | 137,018 | 42,414 |
| Bank overdraft | 3.28 | 1,555 | 15 |
| Interest-bearing loans and borrowings | 3.28 | 40,279 | 28,314 |
| Provisions | 3.32 | 611 | 2,102 |
| **Total current Liabilities** | | **179,463** | **98,207** |
| | | | |
| **Total Liabilities** | | **582,578** | **415,010** |
| **TOTAL EQUITY AND LIABILITIES** | | **677,924** | **562,966** |



# Consolidated statement of changes in equity

## FOR THE YEAR ENDED 31 DECEMBER 2008

| In EUR thousand | Share capital | Share premium | Translation reserve | Legal reserve fund | Equity Instrument | Retained earnings | Total attributable to equity holders of the parent company | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 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 December 2007** | **7,229** | **44,467** | **12,831** | **175** | **7,438** | **75,648** | **147,788** | **168** | **147,956** |
| Balance at 1 January 2008 | 7,229 | 44,467 | 12,831 | 175 | 7,438 | 75,648 | 147,788 | 168 | 147,956 |
| Total recognised Income and expense | – | – | 4,042 | – | – | (102,489) | (98,447) | 11,593 | (86,854) |
| Equity Step-Up | 425 | 3,478 | – | – | – | – | 3,903 | – | 3,903 |
| Private placement | 4,022 | 19,929 | – | – | – | – | 23,951 | – | 23,951 |
| Addition to the legal reserve fund | – | – | – | 18 | – | (18) | – | – | – |
| Newly acquired companies, common control transactions and changes in minority interest without change in control | – | – | – | – | – | (2,472) | (2,472) | 6,034 | 3,562 |
| Items recorded directly in equity | – | – | – | – | – | (180) | (180) | 2,966 | 2,786 |
| Other changes in equity | – | – | – | – | – | 42 | 42 | – | 42 |
| **Balance at 31 December 2008** | **11,676** | **67,874** | **16,873** | **193** | **7,438** | **(29,469)** | **74,585** | **20,761** | **95,346** |
| **Note** | 3.27.1 | 3.27.1 | | | | | | | |

# Consolidated cash flow statement

## FOR THE YEAR ENDED 31 DECEMBER 2008

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| (Loss)/Profit for the period before tax | (98,148) | 25,877 |
| Adjustments for: | | |
| Depreciation | 705 | 693 |
| Amortisation | 147 | 493 |
| Impairment Losses | 6,172 | 325 |
| Foreign exchange Losses | (13,981) | 1,609 |
| Change in the value of investment property | 44,674 | (64,089) |
| Revaluation of derivates | 23,459 | (3,582) |
| Interest expense | 23,421 | 9,856 |
| Share of profit of associates | (54) | (12) |
| Loss on the sale of investments in subsidiaries and associates | 226 | 214 |
| Gain on the sale of trading property - inventory | – | (314) |
| (Loss)/Gain on the sale of investment property | 27 | (3,963) |
| Gain on the sale of property, plant and equipment | (295) | – |
| Other | 8,487 | 1,737 |
| **Operating profit before changes in working capital and provisions** | **(5,160)** | **(31,156)** |
| Increase/(decrease) in trade and other receivables | 5,317 | (8,039) |
| Increase/(decrease) in trading property - inventory | (6,583) | (58,960) |
| Increase/(decrease) in trade and other payables | 76,717 | 11,181 |
| Increase/(decrease) in Assets and Liabilities held for sale | (3,822) | – |
| Increase/(decrease) in provisions and employee benefits | 13,679 | 1,947 |
| **Cash generated from/(used in) the operations** | **80,148** | **(85,027)** |
| Interest paid | (12,740) | (4,664) |
| Interest received | 1,011 | 878 |
| Income taxes paid | (470) | (1,152) |
| **Net cash from/(used in) operating activities** | **67,949** | **(89,965)** |
| | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale of plant and equipment | 798 | – |
| Proceeds from the sale of investment property | 1,655 | 1,246 |
| Proceeds from the sale of investments in associates | 5,217 | 2,971 |
| Proceeds from the sale of trading property | – | 2,762 |
| Proceeds from repayment of advances paid for investment property | – | 337 |
| Proceeds from disposal of subsidiary, net of cash disposed | 3,562 | 11,526 |
| Acquisition of subsidiary, net of cash acquired | (1,711) | (13,581) |
| Acquisition of property, plant and equipment | (7,877) | (2,943) |
| Acquisition of intangible Assets | (339) | (503) |
| Acquisition of investment property | (33,524) | (22,730) |
| Acquisition of investment property under construction | (132,968) | (28,963) |
| Other loans (provided)/repaid | (290) | (3,345) |
| Prepayments for subsidiaries | – | (211) |
| **Net cash from/(used in) investing activities** | **(165,477)** | **(53,434)** |



| In EUR thousand | 2008 | 2007 |
|---|---|---|
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from the issue of share capital | 28,389 | 24,905 |
| Proceeds from the issue of convertible notes | – | 30,170 |
| Proceeds from the issue of other notes | – | 28,265 |
| Other changes in equity | – | 437 |
| Drawings/(repayments) of loans and borrowings | 71,837 | 56,002 |
| (Repayments)/drawings of finance lease Liabilities and other long term payables | (5,824) | 2,472 |
| **Net cash from financing activities** | **94,402** | **142,251** |
| | | |
| **Net decrease in cash and cash equivalents** | **(3,126)** | **(1,148)** |
| Cash and cash equivalents at 1 January | 36,753 | 37,901 |
| **Cash and cash equivalents at 31 December** | **33,627** | **36,753** |

**CITY Point – Offices**
Prague, Czech Republic

THERE IS NO LONG-TERM SUCCESS WITHOUT DETERMINATION AND ENDURANCE

# Notes to the consolidated financial statements

## FOR THE YEAR ENDED 31 DECEMBER 2008

## 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 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 are available on www.ecm.cz.

### *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.

The Group's real estate development focuses on:
— Office space;
— Retail space; and
— A residential portfolio.

The Hotel Operations focus on:
— The provision of hotel services.

Business Operations focus on:
— Office space;
— 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 2008**

| Shareholder | Thousands of shares | Share in registered capital | Share in voting rights |
|---|---|---|---|
| **ECM Group N.V.** | 5,785 | 84% | 84% |
| Other retail and institutional investors | 1,083 | 16% | 16% |
| **Total** | **6,868** | **100%** | **100%** |

**Year 2007**

| Shareholder | Thousands of shares | Share in registered capital | Share in voting rights |
|---|---|---|---|
| **ECM Group N.V.** | 1,866 | 44% | 44% |
| Other retail and institutional investors | 2,387 | 56% | 56% |
| **Total** | **4,253** | **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, Poland and in the Netherlands.

### *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
Jozef Franz Homola, Member of the Board of Directors of the Company

### *Employees Review*

| | 2008 | 2007 |
|---|---|---|
| Czech Republic | 487 | 364 |

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 Pilsen s.r.o., ECM Hotel Operations EUROPORT s.r.o., OOO "ECM Russia" and ECM Real Estate Consulting (Beijing) Co., Ltd.

### *Trend Information*
The Group's strategy is to continue its selective expansion in Russia and in Asia. Its Russian and Chinese offices in Moscow and Beijing are extensively screening investment opportunities.

***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 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 city 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.

***Uncertainty about the Impact of the Global Financial Crisis***

The Group might be influenced by the global financial and economic crisis. The Group might be exposed to increased risk mainly due to the high volatility and uncertainty regarding the valuation, possible impairment of assets, contingent liabilities and future development of the markets. Those potential risks may have an impact on the Group's financial statements in the future.

The presented consolidated financial statements for the year ended 31 December 2008 are based on the current best estimates and management of the Group believes that they present the true and fair view of the Group's financial results and financial position using all relevant and available information at the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES

***(a) Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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. All figures are in thousands of euros (EUR), unless stated otherwise. They are prepared on an 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 flow of the entities included in the consolidated financial statements and are consistent with those used in the previous year with exceptions arising from adoption of new, revised or amended standards (see note (v) Impact of changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008).

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.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note (w) Reclassifications).

***(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.

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.

Change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction.

(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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(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 assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(iv) 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 to account for to all common control transactions.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

***(d) Functional and presentation currency***

(i) Functional currency

Functional currencies of the companies in the Group depend on the country of their incorporation and operations.

Summary of countries and functional currencies:

| Country | Functional currency |
|---|---|
| Luxembourg | EUR |
| Netherlands | EUR |
| Cyprus | EUR |
| Czech Republic | CZK |
| Russia | RUB |
| China | CNY |
| Hong Kong | USD |
| Poland | PLN |

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

(ii) Presentation currency

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

(iii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.




(iv) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation of foreign operations are recognised directly in a separate component of equity – Translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Cash flow of foreign operations are translated into euro 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 December 2008 | 26.930 | 24.942 |
| 31 December 2007 | 26.620 | 27.762 |
| 1 January 2007 | 27.495 | N/A |

| Date | Closing exchange rate RUB/EUR | Average exchange rate RUB/EUR for the 12-month period |
|---|---|---|
| 31 December 2008 | 41.283 | 36.397 |
| 31 December 2007 | 36.004 | 34.996 |
| 1 January 2007 | 34.671 | N/A |

| Date | Closing exchange rate CNY/EUR | Average exchange rate CNY/EUR for the 12-month period |
|---|---|---|
| 31 December 2008 | 9.496 | 10.168 |
| 31 December 2007 | 10.756 | 10.406 |
| 1 January 2007 | 10.282 | N/A |

| Date | Closing exchange rate USD/EUR | Average exchange rate USD/EUR for the 12-month period |
|---|---|---|
| 31 December 2008 | 1.392 | 1.464 |
| 31 December 2007 | 1.473 | 1.367 |
| 1 January 2007 | 1.317 | N/A |

| Date | Closing exchange rate PLN/EUR | Average exchange rate PLN/EUR for the 12-month period |
|---|---|---|
| 31 December 2008 | 4.153 | 3.502 |
| 31 December 2007 | 3.591 | 3.784 |
| 1 January 2007 | 3.831 | N/A |

***(e) Use of estimates***

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. These estimates, which specifically relate to the determination of fair values of investment properties, impairment of assets and provisions, are based on the information available at the balance sheet date. The current global economic crisis, its acceleration and market turbulence increase the risk that the actual results and outcomes may significant differ from these estimates. Key areas with a potential for significant differences between the actual results and the estimates principally include fair values of investment property. The Group prepared the sensitivity analysis of its main projects which is presented on the Note 3.35.4.a). 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.

***(f) 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 (l)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, 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.

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

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain or loss arising on re-measurement is recognised in profit or loss.

(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 (l)). Lease payments are accounted for as described in accounting policy (q).

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Property held under operating leases that meets the definition of investment property is classified as investment property on a property-by-property basis. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.



(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 income statement in the year that they are acquired. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

The estimated useful lives are as follows:

| **Assets** | **2008** | **2007** |
|---|---|---|
| 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 |

Depreciation methods, useful lives and residual values (if not insignificant) are reviewed at each reporting date.

***(g) Intangible assets***

(i) Goodwill

Business combinations, excluding those commenced between parties under common control, 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 excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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 Group's interest in 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 measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units (assets) and is not amortised but is tested annually for impairment (see accounting policy (l)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

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, which have finite useful lives, are measured at cost less accumulated amortisation (see below) and accumulated impairment losses (see accounting policy (l)). Amortisation is recognised in the income statement in 'Administrative expenses'.

### (iii) Subsequent expenditure

Subsequent expenditure on 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 recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, 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 | 2008 | 2007 |
|---|---|---|
| Other intangible fixed Assets | 30 years | 30 years |
| Software | 4 years | 4 years |

## *(h) Investment property*

Investment property is property 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 2008 and 2007 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 of the properties are determined in euros. Various investment properties are held by companies with the functional currency other than euros. Revaluation gains and losses in respect of these investment properties therefore include the impact of a change in foreign exchange rates. The impact of changes in foreign exchange rates is presented separately under 'Net other financial (expense)/income'. Changes in the fair value of investment properties without effect of changes in foreign exchange rates are presented on the face of the income statement as 'Valuation Gains/Losses on investment property'.

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 interest 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 (q).




### (i) Investment property under construction

Property that is being constructed for future use as investment property is accounted for as investment property under construction measured at cost (including prepayments done for property) until construction or development is complete, at which time it is re-measured to fair value and reclassified as investment property. Any gain or loss arising on the re-measurement is recognised in profit or loss.

### (j) 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.

## *(k) Financial instruments*

### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, provided loans, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

*Other 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 flow, 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.

*Trade and other receivables*

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

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank accounts and call deposits 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.

*Interest-bearing loans and borrowings*

Interest-bearing borrowings are recognised initially at fair values 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.

*Trade and other payables*

Trade and other payables are stated at their nominal value, which is equal to their amortised cost.

*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.

*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.

### (ii) 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 flow of the hedged and hedging items are almost fully offset and the results are within a range of 80% to 125%.

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.




Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

### (iii) 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.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

### (iv) Share capital and share premium

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

## *(I) Impairment*

### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flow discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Group's assets, other than investment property (see accounting policy (h)) and deferred tax assets (see accounting policy (s)), 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 a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Impairment losses are recognised in profit or loss, when detected.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### *(m) Assets and liabilities held for sale*

Disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the components of a disposal group are re-measured in accordance with the Group's accounting policies at the lower of their carrying amount and fair value less cost to sell. Thereafter generally the disposal group of assets and liabilities are 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.

### *(n) Provisions*

A provision is recognised on the balance sheet if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, 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 flow 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.

### *(o) Guaranties provided*

In the normal course of business, the Group entities may enter into credit related commitments which are accounted for in off balance sheet items. These commitments primarily include financial 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).



### *(p) 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, over the term of the lease.

(iii) Sale of investment property, trading property and investment in subsidiaries and associates

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

### *(q) 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, over the term of the lease.

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

(iii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rents are charged as expenses in the periods in which they incur.

### *(r) Net financial income (expenses)*

(i) Interest income

Interest income comprises interest income on funds invested (bank interest and interest on provided loans). Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(ii) Interest expense

Interest expense comprises interest expense on loans and borrowings, on convertible debenture loans, on other bonds and interest charges related to finance leases. All borrowing costs are recognised in profit or loss using the effective interest method net of interest capitalised.

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

(iii) Net other financial income/(expense)

Other financial income/(expense) comprise foreign exchange gains and losses, gains and losses on derivative instruments that are recognised in the income statement and bank charges.

Foreign currency gains and losses are reported on a net basis.

### *(s) 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.

### *(t) Earnings per share*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

### *(u) 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 returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

The business activity of the Group is considered to be three segments.

Inter-segment pricing is determined on an arm's length basis.



Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, investment property, investment property under construction, intangible assets other than goodwill and trading property.

### *(v) Impact of Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008*

In 2008 the Group adopted the following new or amended International Financial Reporting Standards and IFRIC Interpretations, however not all below listed standards and IFRIC interpretations were relevant for the Group:

— IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective 1 January 2008 for accounting periods beginning on or after 1 March 2007):
  IFRIC Interpretation 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

— New interpretation IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008).
  The Interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation.

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:

— Amendment to IFRS 2 Share-based Payment – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009).
  The amendment limits vesting conditions to service conditions and performance conditions. Other features of share-based payment are not vesting conditions.

— Revised IFRS 3 Business Combinations (effective 1 July 2009):
  Amended IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period of acquisition, and future reported results. The changes by revised IFRS 3 will affect future acquisitions or loss of control and transactions with minority interests.

— Amendments to IFRS 7 Financial Instruments: Disclosures – Improving disclosures about financial instruments (published on 5 March 2008 and effective for annual periods beginning on or after 1 January 2009).
  The amendments to IFRS 7 introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

— IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009);

— IAS 1 Presentation of Financial Statements (effective 1 January 2009): The amendment requires revision of the statement of changes in equity and additional disclosures, such as statement of other comprehensive income. Assets and liabilities held for trading in accordance with IAS 39 Financial instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.

— Consequential amendment to IAS 12 Income Taxes as a result of the revised version of IFRS 3 (effective July 2009);

— IAS 16 Property, Plant and Equipment (effective 1 July 2009): Replace the term "net selling price" with "fair value less costs to sell".

— IAS 23 Borrowing Costs (effective 1 January 2009): The amendment requires including borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs shall be recognised as an expense. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method in accordance with IAS 39.

— Amended IAS 27 Consolidated and Separate Financial Statements (2008) (effective 1 July 2009): Amended IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised IAS 27 will affect future acquisitions or loss of control and transactions with minority interests.

— Consequential amendments to IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures arising from amended IAS 27, issued in January 2008 (effective 1 July 2009);

— Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009 with retrospective application);

— IAS 36 Impairment of Assets (effective 1 January 2009): When discounted cash flow are used to estimate "fair value less cost to sell" additional disclosures is required about the discount rate, consistent with disclosures required when the discounted cash flow are used to estimate "value in use".

— IAS 38 Intangible assets (effective 1 January 2009): Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services.

— IAS 39 Financial Instruments: Recognition and Measurement for Eligible Hedged Items (effective for the annual period as of 1 July 2009)
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value of changes or cash flow variability of a financial instrument as hedged item.

— IFRIC 12 Service Concession Arrangements (published on 30 November 2006 and effective for annual periods beginning on or after 1 January 2008).
The Interpretation provides guidance for operators in service concession arrangements between the public and private sector with regard to accounting recognition of these arrangements. IFRIC 12 applies to arrangements where concessionaire controls or regulates services to be provided by the operator with the use of specific infrastructure, as well as a material remaining share in the infrastructure as at the end of arrangement delivery.

— IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
The Interpretation addresses accounting by the entity that grants award credits to its customers. An entity shall account for award credits as a separately identifiable component of the sales transaction in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

— IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).
The Interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by the statutory or contractual minimum funding requirements.

— New interpretation IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009).



— IFRIC 17 Distributions of Non-Cash Assets to Owners (published on 27 November 2008). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. The Interpretation does not apply to non-cash assets if distribution does not result in a change of control. IFRIC 17 applies prospectively to annual periods beginning on or after 1 July 2009.

— IFRIC 18 Transfers of Assets from Customers (published on 29 January 2009 and applies prospectively for transfer of assets from customers received on or after 1 July 2009). This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to a network or to provide ongoing access to supply of goods/services.

The Group is currently assessing the potential impacts of the new and revised standards that will be effective for the annual period from 1 January 2009 or later with exception of IFRS 8 Operating segments, which was already implemented for year ended 31 December 2007. The Group currently does not expect that the new standards and interpretations would have a significant effect on the Group's results and financial position.

***(w) Reclassifications***

With respect to the accounting policies stated above, the Group has decided to reclassify several items in financial statements as at 31 December 2008. To ensure consistency with the classification selected in the current period, reclassifications were made in the comparative financial information (including Cash flow statement) as at 31 December 2007. The reclassifications are described in detail bellow.

(i) Property operating expenses

The Group has decided to reclassify certain expenses related to hotel operations and property operations in ECM Hotel Operations EUROPORT s.r.o., ECM Hotel Operations Pilsen s.r.o., ECM Facility a.s. and OPTISERVIS,spol. s r.o. from 'Administrative expenses' to 'Property operating expenses' as at 31 December 2008. To ensure consistency with the classification selected in the current period, reclassification from 'Administrative expenses' to 'Property operating expenses' in the amount of TEUR 7,060 was made in the comparative financial information.

(ii) Personnel expenses

The Group has decided to present personnel expenses related to administrative expenses separately on the face of the income statement. To ensure consistency with the classification selected in the current period, a reclassification from administrative expenses to personnel expenses in the amount of TEUR 2,912 was made in the comparative financial information.

(iii) Impairment of goodwill

The Group has decided to present impairment of goodwill separately on the face of the income statement. To ensure consistency with the classification selected in the current period, a reclassification from Other expenses to Impairment of goodwill in the amount of TEUR 325 was made in the comparative financial information.

(iv) Interest income (expenses)

The Group has decided to disclose interest income (expenses) on the face of the income statement. To ensure consistency with the classification selected in the current period, a reclassification from Other financial income/(expenses) to Interest income (expenses) in the amount of TEUR 901 (TEUR (10,928)) was made in the comparative financial information.

(v) Net other financial income/(expenses)

The Group has decided to disclose Other financial income/(expenses) on the face of the income statement on the net basis. To ensure consistency with the classification selected in the current period, a net amount of TEUR (2,006) is presented under Net other financial income/(expenses) in the comparative financial information.

(vi) Impact of changes in foreign exchange rates on the valuation of investment property

The fair values of the properties are determined in euros. Various investment properties are held by companies with the functional currency other than euros. Revaluation gains and losses in respect of these investment properties therefore include the impact of a change in foreign exchange rates. Consequently, the Group has decided to present the impact of changes in foreign exchange rates separately under 'Net other financial (expense)/income' as at 31 December 2008. To ensure consistency with the classification selected in the current period, reclassification from 'Net other financial (expense)/income' to 'Valuation gains/losses on investment property' in the amount of TEUR 8,354 was made in the comparative financial information.

(vii) Investment property under construction

The Group started to invest in two new projects in China in 2007. The amounts paid and expenses capitalised in relation to these projects are included under "Investment property under construction" as at 31 December 2008. In 2007, the Group paid advances in respect of these projects which were disclosed in "Trade and other receivables" as at 31 December 2007. To ensure consistency with the classification selected in the current period, reclassification from 'Trade and other receivables' to 'Investment property under development' in the amount of TEUR 28,963 was made in the comparative financial information.

(viii) Non-current provisions

The Group has decided to reclassify a provision for onerous contracts within the Hotel operations segment to non-current provisions. To ensure consistency with the classification selected in the current period, a reclassification from current to non-current provisions in the amount of TEUR 1,000 was made in the comparative financial information.

Management of the Group believes that above described changes in classification better reflect the financial position of the Group.



## 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. (84%) and other retail and institutional investors (16%).

### 3.1.2. Subsidiaries, joint-ventures and associates

| | Country of incorporation | Ownership interest 12/31/2008 | Ownership interest 12/31/2007 |
|---|---|---|---|
| ECM Finance a.s. | Czech Republic | 100% | 100% |
| ECM Real Estate Investments, k.s. | Czech Republic | 100% | 100% |
| ECM Czech Republic A.G. | Luxembourg | 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% |
| ECM Czech Services, a.s. (STROMOVKA OBCHODNI CENTRUM a.s. ) | Czech Republic | 100% | 100% |
| ECM Hotel Operations EUROPORT s.r.o. | Czech Republic | 100% | 100% |
| ECM Hotel Operations Pilsen s.r.o. | Czech Republic | 100% | 100% |
| ECM OFFICES LIBEŇ 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.) | 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% | 100% |
| EMPIRIA BUILDING s.r.o. | Czech Republic | 100% | 100% |
| SAZERAC a.s. | Czech Republic | 100% | 100% |
| Palisády, s.r.o. | Czech Republic | 100% | 100% |
| TORSAR a.s. | Czech Republic | 100% | 100% |
| NATIONAL BUSINESS CENTRE Ostrava a.s. | Czech Republic | 100% | 100% |
| NBC National s.r.o. | Czech Republic | 100% | 100% |
| Ryazan Investors Company Ltd. | Cyprus | 85% | 100% |
| Ryazan Shopping Mall Ltd. | Cyprus | 85% | 100% |
| Ryazan Hold Company Ltd. | Cyprus | 100% | 100% |
| PROSPECT LLC (OOO "PROSPEKT") | Russia | 85% | 100% |
| 2P, s.r.o. | Czech Republic | – | 100% |
| REZIDENCE UNHOŠŤ a.s. | Czech Republic | 100% | 100% |
| Czech Real Estate Regions S. a.r.l. | Luxembourg | 100% | 100% |
| VARENSKÁ OFFICE CENTER, a.s. | Czech Republic | 100% | 100% |
| EKZ Tschechien 4 Immobiliengesellschaft s.r.o. | Czech Republic | 50% | 50% |
| OIK City Point Investment a.s. (SPV POINT, a.s.) | Czech Republic | 5% | 5% |
| China East Investment Limited | Hong Kong | 60% | 60% |
| ECM Property Holding (Tianjin) Co Ltd. | China | 60% | 60% |

| | Country of incorporation | Ownership interest 12/31/2008 | Ownership interest 12/31/2007 |
|---|---|---|---|
| Metropolis Holding China Limited | Hong Kong | 60% | 60% |
| Metropolis Holding (Tianjin) Co., Ltd. | China | 60% | 60% |
| MOLE ONE LIMITED | Cyprus | 100% | 100% |
| ECM Poland A.G. (China ECM Beijing I. SA) | Luxembourg | 100% | 100% |
| ECM CHINA Beijing S.a.r.l. | Luxembourg | 100% | 100% |
| ECM POZNAŇ RESIDENCE sp. z o.o. (Mergus sp. z o.o) | Poland | 100% | 100% |
| East Point Holding B.V. | Netherlands | 30% | 30% |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” | Russia | 30% | 30% |
| GONDOMAR s.r.o. | Czech Republic | 100% | 100% |
| ECM Corporate Services s.r.o. (HARBINOIR s.r.o.) | Czech Republic | 100% | 100% |
| LEPORANO s.r.o. | Czech Republic | 100% | 100% |
| POYNTON s.r.o. | Czech Republic | 100% | 100% |
| ROBUREN s.r.o. | Czech Republic | 100% | 100% |
| ECM ExCE Services s.r.o. (TALENTONE s.r.o.) | Czech Republic | 100% | 100% |
| URBARIUM s.r.o. | Czech Republic | 100% | 100% |
| VEPAMOS s.r.o. | Czech Republic | 100% | 100% |
| LUNZIE a.s. | Czech Republic | 100% | 100% |
| OPTISERVIS,spol. s r.o. | Czech Republic | 100% | 50% |
| ECM Russia A.G. | Luxembourg | 100% | 100% |
| OOO “ECM Russia” | Russia | 100% | – |
| Yerevan Invest B.V. | Netherlands | 70% | – |
| ECM Real Estate Consulting (Beijing) Co., Ltd. | China | 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.

### 3.1.3. Changes in the Group

During 2008, the Group acquired or disposed the following companies:

| Company | Share of acquisition | Share of disposal | Purchased/Sold on |
|---|---|---|---|
| Yerevan Invest B.V. (1) | 100% | – | 17 January 2008 |
| OOO “ECM Russia” | 100% | – | 18 January 2008 |
| ECM Real Estate Consulting (Beijing) Co., Ltd. | 100% | – | 21 March 2008 |
| East Point Holding B.V. (2) | – | – | 31 March 2008 |
| OPTISERVIS,spol. s r.o. (3) | 50% | – | 28 May 2008 |
| ECM Czech Republic A.G. | 100% | – | 29 May 2008 |
| 2P, s.r.o. | – | 100% | 31 July 2008 |
| Ryazan Investors Company Ltd. (4) | – | 15% | 24 October 2008 |

(1) The Group acquired 100% of shares of this entity at the date stated above. Subsequently 30% of the shares were sold to Victor Nicolayevich Krestin on 22 May 2008.

(2) The Group started to control the operation and activities of East Point Holding B.V. and its wholly owned subsidiary OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” regardless of ownership interest as the development project in OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” is under control of the Group. Therefore, the method of full consolidation has been applied since 31 March 2008.

(3) The Group acquired the first 50% of shares of the entity as at 20 December 2007. The remaining 50% of shares were acquired as at the date stated above.

(4) Including its subsidiaries Ryazan Shopping Mall Ltd. and Prospect LLC. The ownership interest was sold to related party PSJ NEW N.V.

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 |
| PROSPECT LLC (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 |
| ECM Corporate Services s.r.o. (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 |
| ECM ExCe Services s.r.o. (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% of the shares of these entities as at the dates stated above. Subsequently 40% of the shares were sold to Nordevo.

### 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 2008)**

| In EUR thousand | Yerevan Invest B.V. | OOO "ECM Russia" | ECM Real Estate Consulting (Beijing) Co., Ltd. | OPTISERVIS, spol. s r.o. | ECM Czech Republic A.G. |
|---|---|---|---|---|---|
| Property, plant and equipment | – | 88 | 10 | 11 | – |
| Intangible Assets | – | – | – | 1 | – |
| Trading property | – | 1,375 | – | 2 | – |
| Income tax receivables | – | – | – | 30 | – |
| Trade and other receivables | – | 172 | 5 | 325 | – |
| Cash and cash equivalents | 18 | 197 | 55 | 108 | 31 |
| Trade payables | – | (34) | (104) | (258) | – |
| Interest-bearing loans | – | (2,058) | – | – | – |
| Deferred tax | – | 269 | – | – | – |
| Net identifiable Assets and Liabilities | 18 | 9 | (34) | 219 | 31 |
| Fair value adjustments | – | – | – | – | – |
| Net identifiable Assets and Liabilities in fair values | 18 | 9 | (34) | 219 | 31 |
| Consideration, paid in cash | (18) | (9) | (206) | (1,882) | (31) |
| **Cash (acquired)** | **18** | **197** | **55** | **108** | **31** |
| **Net cash outflow** | **–** | **188** | **(151)** | **(1,774)** | **–** |

| In EUR thousand | East Point Holding B.V. (1) | OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" (1) |
|---|---|---|
| Investment property | – | 4,771 |
| Provided loans | 5,599 | – |
| Investments | 4,210 | – |
| Trade and other receivables | – | 846 |
| Cash and cash equivalents | 5 | 22 |
| Trade and other payables | (24) | (5,537) |
| Other long-term payables | – | (180) |
| Interest-bearing loans | (9,643) | (5,691) |
| Deferred tax | – | 29 |
| Net identifiable Assets and Liabilities | 147 | (5,740) |
| Fair value adjustments | – | 9,804 |
| Net identifiable Assets and Liabilities in fair values | 147 | 4,064 |
| Consideration, paid in cash | (1) | (4,210) |
| **Cash (acquired)** | **5** | **22** |
| **Net cash outflow** | **4** | **(4,188)** |

(1) The Group started to control the operation and activities of East Point Holding B.V. and its wholly owned subsidiary OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" regardless of ownership interest as the development project in OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" is under control of the Group. Therefore, the method of full consolidation has been applied since 31 March 2008.

**The acquiree's contribution to the consolidated net profit in 2008 (for companies acquired in 2008)**

| Companies acquired in 2008 | Net Profit/(Loss) contributed to consolidated profit in 2008 |
|---|---|
| In EUR thousand | |
| Yerevan Invest B.V. | (22) |
| OOO "ECM Russia" | (1,385) |
| ECM Real Estate Consulting (Beijing) Co., Ltd. | 315 |
| OPTISERVIS,spol. s r.o. | 376 |
| ECM Czech Republic A.G. | (42) |
| East Point Holding B.V. | 295 |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | 14,687 |

**The acquiree's revenue and net profit before acquisition date in 2008 (for companies acquired in 2008)**

| Companies acquired in 2008 | The acquiree's revenue before acquisition date in 2008 In EUR thousand | The acquiree's net profit before acquisition date in 2008 In EUR thousand |
|---|---|---|
| Yerevan Invest B.V. | – | – |
| OOO "ECM Russia" | – | (178) |
| ECM Real Estate Consulting (Beijing) Co., Ltd. | 44 | (36) |
| OPTISERVIS,spol. s r.o. | – | – |
| ECM Czech Republic A.G. | – | – |
| East Point Holding B.V. | – | 113 |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | – | 9,989 |

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

| In EUR thousand | 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 EUR thousand | Ryazan Hold Company Ltd. | PROSPECT LLC | China East Invest-ment Limited | ECM Property Holding (Tianjin) Co Ltd. | Metropolis Holding China Limited |
|---|---|---|---|---|---|
| Provided loans | 672 | – | – | – | – |
| Investments | 840 | – | – | – | – |
| Trade and other receivables | 2 | 88 | – | – | – |
| Cash and cash equivalents | – | 74 | – | – | – |
| Trade and other payables | (852) | (90) | – | – | – |
| Interest bearing loans | (715) | (734) | – | – | – |
| Net identifiable Assets and Liabilities in statutory books | (53) | (662) | – | – | – |
| Fair value adjustments | – | – | – | – | – |
| Net identifiable Assets and Liabilities in fair values | (53) | (662) | – | – | – |
| Consideration, paid in cash | (4,340) | (840) | – | – | – |
| **Cash (acquired)** | **–** | **74** | **–** | **–** | **–** |
| **Net cash outflow** | **(4,340)** | **(766)** | **–** | **–** | **–** |

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

| In EUR thousand | 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 | – | 111 | – | – | – |
| Cash and cash equivalents | – | – | 15 | 10 | 17 |
| Trade and other payables | – | (3) | (8) | – | – |
| Interest bearing loans | – | (98) | – | – | – |
| Net identifiable Assets and Liabilities in statutory books | – | 10 | 20 | 10 | 17 |
| Fair value adjustments | – | – | – | – | – |
| Net identifiable Assets and Liabilities in fair values | – | 10 | 20 | 10 | 17 |
| Consideration, paid in cash | – | (10) | (44) | (13) | (17) |
| **Cash (acquired)** | **–** | **–** | **15** | **10** | **17** |
| **Net cash outflow** | **–** | **(10)** | **(29)** | **(3)** | **–** |

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

| In EUR thousand | 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) | – |

| In EUR thousand | 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. |
|---|---|---|---|---|---|
| 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 EUR thousand | ECM Corporate Services s.r.o. (HARBINOIR s.r.o.) | LEPORANO s.r.o. | POYNTON s.r.o. | ROBUREN s.r.o. | ECM ExCe Services s.r.o. (TALENTO-NE 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 EUR thousand | URBARIUM s.r.o. | VEPAMOS 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 |
|---|---|
| In EUR thousand | |
| 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) |
| PROSPECT LLC (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 POZNAŇ RESIDENCE sp. z .o. o. | 2,329 |
| Czech Real Estate Regions S.a.r.l. | (12) |
| 2P, s.r.o. | 122 |
| VARENSKÁ OFFICE CENTER, a.s | (18) |
| REZIDENCE UNHOŠŤ a.s.. | (2) |
| GONDOMAR s.r.o. | (2) |
| ECM Corporate Services s.r.o. (HARBINOIR s.r.o.) | (2) |
| LEPORANO s.r.o. | (2) |
| POYNTON s.r.o. | (2) |
| ROBUREN s.r.o. | (2) |
| ECM ExCe Services s.r.o. (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 EUR thousand | The acquiree's net profit before acquisition date in 2007 In EUR thousand |
|---|---|---|
| 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) |
| PROSPECT LLC (OOO "PROSPEKT") | – | (6) |
| China East Investment Limited | – | – |
| ECM Property Holding (Tianjin) Co Ltd. | – | – |
| Metropolis Holding China Limited | – | – |



| Companies acquired in 2007 | The acquiree's revenue before acquisition date in 2007 In EUR thousand | The acquiree's net profit before acquisition date in 2007 In EUR thousand |
|---|---|---|
| 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. | – | – |
| ECM Corporate Services s.r.o. (HARBINOIR s.r.o.) | – | – |
| LEPORANO s.r.o. | – | – |
| POYNTON s.r.o. | – | – |
| ROBUREN s.r.o. | – | – |
| ECM ExCe Services 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. | – | – |

## 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 of TEUR 15,053 as at 31 December 2008 (TEUR 1,000 as at 31 December 2007).

### 3.2.2. Geographical segments

The running of the 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 companies in Asia 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**

| In EUR thousand | Hotel Operations | | Business Operations | | Development | | Eliminations | | Consolidation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| External revenues (1) | 9,676 | 6,089 | 15,000 | 7,117 | 21,418 | 45,671 | – | – | 46,094 | 58,877 |
| Inter-segment revenue | – | – | 1,950 | 384 | 8,255 | 1,353 | (10,205) | (1,737) | – | – |
| Total segment revenue | 9,676 | 6,089 | 16,950 | 7,501 | 29,673 | 47,024 | (10,205) | (1,737) | 46,094 | 58,877 |
| Segment result | (18,582) | (1,632) | (27,994) | 37,330 | (45,585) | (10,146) | | | (92,161) | 25,552 |
| Results from operating activities | (17,950) | (1,762) | (18,135) | 48,214 | (38,152) | (8,554) | – | – | (74,237) | 37,898 |
| Share of the Profit in associates and joint ventures | | | | | | | | | 54 | 12 |
| Net finance costs | (363) | (71) | (12,926) | (3,570) | (10,676) | (8,392) | – | – | (23,965) | (12,033) |
| Income tax Expense | (269) | 201 | 3,067 | (7,314) | 3,243 | 6,800 | – | – | 6,041 | (313) |
| Profit for the period | | | | | | | | | (92,107) | 25,564 |

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

| In EUR thousand | Hotel Operations | | Business Operations | | Development | | Consolidation | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Segment Assets | 4,019 | 3,883 | 245,408 | 254,636 | 428,497 | 304,447 | 677,924 | 562,966 |
| Segment Liabilities | 11,544 | 3,668 | 183,735 | 157,533 | 378,299 | 253,809 | 582,578 | 415,010 |
| Segment net Assets | | | | | | | 95,346 | 147,956 |
| Capital expenditure | 13 | – | 27,248 | 61,087 | 154,315 | 18,473 | 181,576 | 79,560 |
| Depreciation | 404 | – | 167 | 174 | 134 | 519 | 705 | 693 |
| Amortisation of intangible Assets | 1 | – | 8 | – | 138 | 492 | 147 | 492 |

**Geographical segments**

| In EUR thousand | Europe and Russia | | Asia | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenue from external customers | 45,168 | 58,877 | 926 | – | 46,094 | 58,877 |
| Segment Assets | 496,538 | 525,126 | 181,386 | 37,840 | 677,924 | 562,966 |
| Capital expenditure | 48,584 | 79,560 | 132,992 | – | 181,576 | 79,560 |



## 3.3. Gross rental and service income

Gross rental income totals TEUR 12,181 (2007 – TEUR 7,054), which consists of income from the rental of offices, land and garages. The income is mainly generated by ECM CITY EMPIRIA a.s., CITY TOWER s.r.o., VARENSKÁ OFFICE CENTER, a.s., ECM Real Estate Investments, k.s., ECM OFFICES LIBEŇ s.r.o., ECM Finance, a.s., 2P, s.r.o. and TABULA MAIOR, a.s.

Service income totals TEUR 23,612 (2007 – TEUR 12,285), which consists of income from facility management activities provided in connection with the rental activity and services provided in the Hotel Operations segment. The income is mainly generated by ECM Hotel Operations EUROPORT s.r.o., ECM Hotel Operations Pilsen s.r.o., ECM Facility a.s., OPTISERVIS,spol. s r.o., ECM Finance a.s., ECM CITY EMPIRIA a.s. and CITY TOWER s.r.o.

## 3.4. Net service charge income and property operating expenses

### 3.4.1. Net service charge income

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Service charge Income | 2,979 | 1,681 |
| Service charge Expenses | (4,213) | (1,339) |
| **Total** | **(1,234)** | **342** |

Service charge income and expenses are connected with rental activities.

### 3.4.2. Property operating expenses

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Repairs and maintenance | (1,772) | (1,148) |
| Depreciation of finance lease Assets | (403) | (387) |
| Material consumption | (2,102) | (627) |
| Energy consumption | (543) | (339) |
| Depreciation of tangible fixed Assets | (931) | (353) |
| Operating lease Expenses | (3,970) | (2,898) |
| Wages and salaries | (4,653) | (2,159) |
| Social security contribution | (1,264) | (913) |
| Other Expenses | (5,742) | (2,887) |
| **Total property operating Expenses** | **(21,380)** | **(11,711)** |

Increase in property operating expenses relates mainly to following operations:

- Increase in expenses related to the operations of the Hotel Courtyard by Marriott Pilsen (ECM Hotel Operations Pilsen s.r.o.) by TEUR 2,669.
- Increase in expenses related to the operations of the Hotel Courtyard by Marriott Prague Airport (ECM Hotel Operations EUROPORT s.r.o.) by TEUR 1,982.
- Increase in expenses related to operations of investment property rented out under operating lease (CITY TOWER s.r.o.) by TEUR 1,257. The property is operated since 2008.
- Increase in expenses related to provision of facility management (OPTISERVIS,spol. s r.o.) by TEUR 1,477. The entity was acquired in December 2007 and therefore no profit or loss was included in consolidated financial statements for the year 2007.
- Increase in expenses related to provision of facility management (ECM Facility a.s.) by TEUR 1,383.

## 3.5. Net valuation gain on investment property

### 3.5.1. Valuation gains on investment property

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Entity description – Project description | | |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | 19,388 | – |
| RYAZAN SHOPPING MALL Ltd. | 9,138 | 11,204 |
| ECM Property Holding (Tianjin) Co Ltd. | 2,699 | – |
| NATIONAL BUSINESS CENTRE Ostrava a.s. & NBC National s.r.o. | 1,396 | 213 |
| CITY PROJECT | – | 4,119 |
| CITY TOWER s.r.o. | – | 39,742 |
| GRASLON a.s. | – | 11,075 |
| LUNZIE a.s. | – | 3,485 |
| ECM POZNAŇ REZIDENCE sp. z .o.o | – | 2,821 |
| ECM OFFICE LIBEŇ s.r.o. | – | 1,093 |
| ECM CITY EMPIRIA a.s. | – | 645 |
| **Total** | **32,621** | **74,397** |

### 3.5.2. Valuation losses on investment property

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Entity description – Project description | | |
| CITY PROJECT | (33,663) | – |
| ECM CITY EMPIRIA a.s. | (18,584) | – |
| CITY TOWER s.r.o. | (12,138) | – |
| GRASLON a.s. | (4,555) | – |
| LUNZIE a.s. | (2,798) | – |
| ECM POZNAŇ REZIDENCE sp. z o.o. | (2,520) | – |
| ECM OFFICES LIBEŇ s.r.o. | (1,845) | – |
| ECM Byty s.r.o. | (931) | (494) |
| Palisády, s.r.o. | (210) | (220) |
| VARENSKÁ OFFICE CENTER, a.s. | (51) | (1,105) |
| OIK City Point Investment a.s. (SPV POINT, a.s.) | – | (135) |
| | **(77,295)** | **(1,954)** |
| **Net valuation Gains and Losses on investment property** | **(44,674)** | **72,443** |

## 3.6. Net result on disposal of investment property

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Proceeds from sale of investment property | | |
| Entity description – project description | | |
| OIK City Point Investment a.s. – City Point | – | 30,878 |
| VARENSKÁ OFFICE CENTER, a.s. – VARENSKÁ OFFICE CENTER | 1,281 | – |
| ECM Byty s.r.o. – Residence Letňany | 300 | 1,246 |
| CITY TOWER s.r.o. – CITY TOWER | 74 | – |
| | **1,655** | **32,124** |
| **Carrying value of investment property sold** | | |
| Entity description – project description | | |
| OIK City Point Investment a.s. – City Point | – | (27,831) |
| VARENSKÁ OFFICE CENTER, a.s. – VARENSKÁ OFFICE CENTER | (1,286) | |
| ECM Byty s.r.o. – Residence Letňany | (322) | (330) |
| CITY TOWER s.r.o. – CITY TOWER | (74) | – |
| | **(1,682)** | **(28,161)** |
| **TOTAL** | **(27)** | **3,963** |



### 3.6.1. VARENSKÁ OFFICE CENTER, a.s. – VARENSKÁ OFFICE CENTER

The agreement on the sale of fit-outs of rented premises to the lessee in VARENSKÁ OFFICE CENTER, a.s. was signed in the second quarter of 2008. The investment property was sold for TEUR 1,281 in cash and a loss of TEUR (5) was realised.

**Effect of the disposal on investment property of the Group (VARENSKÁ OFFICE CENTER, a.s.)**

| In EUR thousand | 2008 |
|---|---|
| Sales price | 1,281 |
| Carrying value of investment property sold | (1,286) |
| Net Loss on disposal | **(5)** |

### 3.6.2. ECM 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. In the second half of 2007, the investment property was sold for TEUR 1,246 in cash and a gain of TEUR 916 was realised. In 2008, the remaining part of investment property was sold for TEUR 300 in cash and a loss of TEUR (22) was realised.

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

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Sales price | 300 | 1,246 |
| Carrying value of investment property sold | (322) | (330) |
| Net (Loss)/Gain on disposal | **(22)** | **916** |

### 3.6.3. CITY TOWER s.r.o. – CITY TOWER

The agreement on the sale of fit-outs of rented premises to the lessee in CITY TOWER s.r.o. was signed in the fourth quarter of 2008. The investment property was sold for TEUR 74 in cash and a gain of TEUR 0 was realised.

**Effect of the disposal on investment property of the Group (CITY TOWER s.r.o.)**

| In EUR thousand | 2008 |
|---|---|
| Sales price | 74 |
| Carrying value of investment property sold | (74) |
| Net Gain on disposal | – |

### 3.6.4. 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 11,669 in cash, and a gain of TEUR 3,005 was realised.

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

| In EUR thousand | 2007 |
|---|---|
| Carrying value of investment property sold | 26,725 |
| Cash and cash equivalents | 531 |
| Trade and other receivables | 188 |
| **Carrying value of investment property sold** | **27,444** |
| Trade payables and other Liabilities | (18,780) |
| **Net identifiable Assets** | **8,664** |
| Sales price | 11,669 |
| **Net Gain on disposal** | **3,005** |

## 3.7. Net result on disposal of the financial investment in subsidiaries and associates

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| **Proceeds from sale of financial investment in subsidiaries and associates** | | |
| Entity description – project description | | |
| 2P, s.r.o. | 5,667 | – |
| ECM Airport Center a.s. | – | 2,971 |
| | **5,667** | **2,971** |
| Carrying value of financial investment in subsidiaries and associates | | |
| Entity description – project description | | |
| 2P, s.r.o. | (5,893) | – |
| ECM Airport Center a.s. | – | (3,185) |
| | (5,893) | (3,185) |
| **Net Profit (Loss) on disposal of subsidiaries and associates** | **(226)** | **(214)** |

### 3.7.1. 2P, s.r.o.

The Group sold shares of 2P, s.r.o., with the effective date of 31 July 2008. The transfer of shares to CA Immo International AG was recorded in the Commercial Register of Companies as at 25 August 2008. The shares of the subsidiary 2P, s.r.o., were sold for TEUR 5,667 in cash, and a loss of TEUR (226) was realised.

**Effect of the disposal of subsidiary 2P, s.r.o.**

| In EUR thousand | 2008 |
|---|---|
| Carrying value of property, plant and equipment, trading property and intangibles sold | 31,186 |
| Cash and cash equivalents | 1,264 |
| Deferred tax asset | 13 |
| Trade and other receivables | 765 |
| **Identifiable Assets** | **33,228** |
| Trade payables and other Liabilities, interest-bearing loans and provisions | (26,321) |
| Deferred tax liability | (1,014) |
| **Identifiable Liabilities** | **(27,335)** |
| **Net identifiable Assets** | **5,893** |
| Sales price | 5,667 |
| **Net Loss on disposal** | **(226)** |



### 3.7.2. 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 – inventories

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| 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 |
| | – | 2,762 |
| **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) |
| | – | (2,448) |
| **Net Profit (Loss) on disposal of trading property** | – | **314** |

### 3.8.1. ECM REAL INVESTMENTS A.G. – Chinese projects

The 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.

In January 2009 ECM has agreed with Nordevo Investments Limited, a project partner in China, on the sale of a 23% stake in China East Investment Limited and Metropolis Holding China Limited for a total consideration of US$ 11.5 million. For further information refer to Note 3.38.1 below.

### 3.8.2. ECM Real Estate Investments, k.s.

The sale of the Airport Center Project trading property relates to the second stage of the ownership transfer of a stake held by the Group in ECM Airport Center a.s. which was completed following the finalisation of development work and the 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 3.7.2 above.

## 3.9. Personnel expenses

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Wages and salaries | (3,195) | (2,365) |
| Social security contributions | (626) | (547) |
| **Total** | **(3,821)** | **(2,912)** |

Personnel expenses are mostly generated by ECM Real Estate Investments, k.s., ECM Real Estate Investments A.G., ECM Finance, a.s. and OOO "ECM Russia". Increase in personnel expenses is attributable mainly to ECM Real Estate Investments, k.s.

### 3.10. Administrative expenses

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Advertising Expenses | (1,326) | (1,264) |
| Audit, tax, advisory services | (3,006) | (1,500) |
| Change in provision (Note 3.32) | – | (234) |
| Material consumption | (648) | (676) |
| Legal services | (2,857) | (2,053) |
| Amortisation of intangible fixed Assets | (405) | (80) |
| Representation cost | (423) | (406) |
| Travel Expenses | (422) | (244) |
| Operating lease | (1,141) | (336) |
| Telecommunication fees | (457) | (396) |
| Other administrative Expenses | (3,114) | (3,270) |
| **Total** | **(13,799)** | **(10,459)** |

Increase is caused by expanding activities in the Development segment.

### 3.11. Impairment

### 3.11.1. Impairment of trading property

As a result of annual impairment test, the Group decided to charge through profit or loss impairment of trading property in total amount of TEUR 1,177 (2007 – TEUR 0) related to projects in progress recorded in ECM Real Estate Investments, k.s.

### 3.11.2. Impairment of goodwill

In connection with annual impairment test, the Group decided to charge through profit or loss impairment of goodwill in total amount of TEUR 4,995 (2007 – TEUR 325) related to business combinations involving following entities:

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Ryazan Hold Company Ltd. and OOO “PROSPEKT” | (4,254) | – |
| SAZERAC a.s. | (334) | – |
| ECM Real Estate Consulting (Beijing) Co.,Ltd. | (240) | – |
| Czech Real Estate Regions S.a.r.l. (1) | (140) | – |
| ECM Poland A.G. and ECM CHINA Beijing S.a.r.l. | (27) | – |
| ECM Russia o.o.o. | – | (317) |
| TORSAR a.s. | – | (8) |
| **Total** | **(4,995)** | **(325)** |

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




### 3.12. Other income

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Compensations for premature terminations of rental contracts | 780 | – |
| Decrease in provision charged to Profit or Loss (refer to Note 3.32) | 503 | – |
| Net Gain on disposal of leased asset Vila C | 474 | – |
| Interest payable due to ECE PROJEKTMANAGEMENT charged to Profit or Loss | 472 | – |
| Income from retention related to sale of ECM Airport Center a.s. (1) | 317 | – |
| Income from retention related to Kartontara project | 179 | – |
| Liabilities charged to Profit or Loss | 157 | – |
| Ceded receivable | – | 603 |
| Other | 1,260 | 184 |
| **Total** | **4,142** | **787** |

(1) Income from retention relates to the second stage of the ownership transfer of a stake held by the Group in ECM Airport Center a.s. to CA Immo International AG in 2007. For further information refer to Note 3.7.2.

### 3.13. Other expenses

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Change in provisions (Note 3.32) (1) + (2) | (15,359) | (1,653) |
| Contractual settlement paid to ECE PROJEKTMANAGEMENT (5) | (1,958) | – |
| Impairment of receivables (3) | (1,770) | – |
| Compensations (4) | – | (29,398) |
| Penalties | (124) | (753) |
| Taxes and fees | (398) | (45) |
| Receivables written off | (236) | (176) |
| Intangible Assets written off | – | (439) |
| Advance for shares SALER written off | (211) | – |
| Other charges related to ECM Group N.V. | (556) | – |
| Other | (2,227) | (1,205) |
| **Total** | **(22,839)** | **(33,669)** |

(1) Based on market development and internal analysis, the Group increased the provision for onerous contracts within the Hotel operations segment of TEUR 15,185 as at 31 December 2008 (2007 – TEUR 1,000).

(2) The Group committed to pay-out approximately (based on preliminary calculation) TEUR 1,159 to TELOR INTERNATIONAL LIMITED based on a Silent Partnership Agreement upon the sale of 2P, s.r.o. The Group has paid TEUR 1,033 in advance which results in TEUR 126 to be paid upon the finalisation of the sale of 2P, s.r.o.

(3) Impairment of receivables relates mainly to receivables recorded in ECM Real Estate Investments, k.s.

(4) 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 3.24. The Company believes that the transaction will generate profit after this compensation.

(5) In 2008, the Group decided to cancel a planned project with ECE PROJEKTMANAGEMENT, which amongst other things, resulted in the settlement fee paid in the amount of TEUR 1,958.

## 3.14. Interest income/(expense)

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Bank interest Income | 929 | 422 |
| Other interest Income | 277 | 479 |
| **Interest Income** | **1,206** | **901** |
| Interest Expense related to bank and non-bank loans | (11,055) | (4,113) |
| Interest Expenses from convertible debt | (10,398) | (4,826) |
| Expenses related to other bonds | (2,486) | (1,200) |
| Interest charges related to financial leases | (688) | (789) |
| **Interest (Expenses)** | **(24,627)** | **(10,928)** |
| **Net interest (Expense)/Income** | **(23,421)** | **(10,027)** |

## 3.15. Net other financial income/(expense)

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Net foreign exchange Gains/(Losses) | 23,632 | (3,694) |
| Revaluation of financial derivates | (23,459) | 3,582 |
| Bank charges | (383) | (392) |
| Other financial Income | 2 | 135 |
| Other financial (Expenses) | (336) | (1,637) |
| **Net other financial (Expense)/Income** | **(544)** | **(2,006)** |

Net foreign exchange gains comprise net foreign exchange gains of TEUR 10,773 (2007 net foreign exchange losses of TEUR (8,354)) related to the revaluation of investment property and net foreign exchange gains of TEUR 12,859 (TEUR 4,660) which were recorded mainly due to fluctuations in the FX rate in the companies having EUR and CZK as the functional currencies.

### 3.15.1. Foreign exchange gains and losses related to revaluation on investment property

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Entity description – Project description | | |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” | 2,503 | – |
| RYAZAN SHOPPING MALL Ltd. | 2,291 | – |
| ECM POZNAŇ REZIDENCE sp. z o.o. | 1,625 | – |
| CITY TOWER s.r.o. | 1,572 | (2,453) |
| CITY PROJECT | 1,034 | (2,361) |
| ECM CITY EMPIRIA a.s. | 1,005 | (2,523) |
| GRASLON a.s. | 194 | – |
| VARENSKÁ OFFICE CENTER, a.s. | 177 | (209) |
| ECM OFFICES LIBEŇ s.r.o. | 142 | (350) |
| LUNZIE a.s. | 134 | – |
| NATIONAL BUSINESS CENTRE Ostrava a.s. + NBC National s.r.o. | 85 | (487) |
| Palisády, s.r.o. | 11 | – |
| ECM BYTY s.r.o. | – | 4 |
| REZIDENCE UNHOŠŤ a.s. | – | 25 |
| **Total** | **10,773** | **(8,354)** |
| | | |
| **Foreign exchange Gains on investment property** | **10,773** | **29** |
| **Foreign exchange Losses on investment property** | **–** | **(8,383)** |

Foreign exchange gains and losses related to the revaluation of investment property are included in net foreign exchange gains.



## 3.16. Taxation

### 3.16.1. Income tax expense recognised in the income statement

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| **Current tax Expense** | | |
| Current year | (758) | (1,284) |
| **Total** | **(758)** | **(1,284)** |
| **Deferred tax Expense** | | |
| New and reversed temporary differences | 5,818 | (10,355) |
| Effect of changes in tax rates | – | 3,886 |
| Effect of changes in foreign currency rates | (308) | (53) |
| Benefit of tax Losses recognised | 1,289 | 7,493 |
| **Total** | **6,799** | **971** |
| **Total Income tax Expense in Income statement** | **6,041** | **(313)** |

### 3.16.2. Reconciliation of effective tax rate

| In EUR thousand | 2008 | 2008 | 2007 | 2007 |
|---|---|---|---|---|
| Profit before tax | | **(98,148)** | | **25,877** |
| Income tax using the domestic corporation tax rate | 21.00% | 20,611 | 24.00% | (6,210) |
| Effect of tax rate in foreign jurisdictions | | (981) | | – |
| Non-deductible Expenses | | (9,121) | | (5,471) |
| Tax exempt revenues | | 3,018 | | 4,757 |
| 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 |
| Effect of provisions not included in the deferred tax | | (2,860) | | – |
| Effect of tax Losses not included in the deferred tax | | (4,626) | | – |
| **Total** | | **6,041** | | **(313)** |

The Group did not generate any significant taxable profits in 2008 and 2007.

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

### 3.16.3. Current tax assets and liabilities

The current tax asset of TEUR 297 (2007 – TEUR 165) 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.

### 3.16.4. Deferred tax assets and liabilities

#### a) Recognised deferred tax assets and liabilities

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

| In EUR thousand | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Investment property | 1,745 | 1,488 | (27,636) | (25,023) | (25,891) | (23,535) |
| Investment property under construction | – | – | (94) | – | (94) | – |
| Trading property - inventory | – | – | (72) | (73) | (72) | (73) |
| Finance lease | – | 387 | – | – | | 387 |
| Property, plant and equipment | – | – | – | – | – | – |
| Interest-bearing loans and borrowings | – | – | (219) | (2,808) | (219) | (2,808) |
| Trade receivables | 207 | 176 | (464) | (1,237) | (257) | (1,061) |
| Trade payables | 636 | 192 | – | – | 636 | 192 |
| Provisions | 54 | 210 | (32) | – | 22 | 210 |
| Bonds | 1,690 | 447 | (46) | (955) | 1,644 | (508) |
| Assets and Liabilities held for sale | – | 15 | – | (674) | – | (659) |
| Other items | – | – | – | – | – | – |
| Tax Losses carried-forward | 11,108 | 11,631 | – | (1,812) | 11,108 | 9,819 |
| Tax Assets/(Liabilities) | 15,440 | 14,546 | (28,563) | (32,582) | (13,123) | (18,036) |
| Set-off of tax | (1,260) | – | 1,260 | – | – | – |
| Tax Assets/(Liabilities) held for sale | – | 15 | – | (674) | – | (659) |
| **Net tax Assets/(Liabilities)** | **14,180** | **14,531** | **(27,303)** | **(31,908)** | **(13,123)** | **(17,377)** |

#### b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| In EUR thousand | Assets | Assets |
|---|---|---|
| | 2008 | 2007 |
| Provisions | 2,860 | – |
| Other items | – | – |
| Tax Losses carried-forward | 4,626 | – |
| Net tax Assets | 7,486 | – |

### 3.16.5. Movement in temporary differences during the year

| In EUR thousand | Balance at 1 Jan 07 | 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 Dec 07 |
|---|---|---|---|---|---|---|
| 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 and Liabilities held for sale | – | 1 | (660) | – | – | (659) |
| Other items | 277 | (285) | – | (85) | 93 | – |
| Tax value of Loss carry-forwards – recognised | 2,516 | 7,303 | – | – | – | 9,819 |
| **Total** | **(18,165)** | **(401)** | **(2,061)** | **2,315** | **276** | **(18,036)** |

| In EUR thousand | Balance at 1 Jan 08 | 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 Dec 08 |
|---|---|---|---|---|---|---|
| Investment property | (23,535) | 740 | (3,096) | – | – | (25,891) |
| Investment property under construction | – | (94) | – | – | – | (94) |
| Trading property – inventory | (73) | 1 | – | – | – | (72) |
| Finance lease | 387 | (387) | – | – | – | – |
| Interest-bearing loans and borrowings | (2,808) | 2,589 | – | – | – | (219) |
| Trade receivables | (1,061) | 687 | – | – | 117 | (257) |
| Trade payables | 192 | 444 | – | – | | 636 |
| Provisions | 210 | (188) | – | – | – | 22 |
| Bonds | (508) | 2,152 | – | – | – | 1,644 |
| Assets and Liabilities held for sale | (659) | (342) | – | 1,011 | – | – |
| Other items | – | (102) | – | – | 102 | – |
| Tax value of Loss carry-forwards – recognised | 9,819 | 991 | 298 | – | – | 11,108 |
| **Total** | **(18,036)** | **6,491** | **(2,798)** | **1,001** | **219** | **(13,123)** |

The amount recognised in income includes new and reversed temporary differences of TEUR 5,818 (2007 – TEUR (6,469)) and the benefit of tax losses recognised of TEUR 1,289 (2007 – TEUR 7,493).

### 3.17. Investment property

| In EUR thousand | CITY PROJECT | VARENSKÁ OFFICE CENTER, a.s. | ECM CITY EMPIRIA a.s. | OIK City Point Investment a.s. | ECM OFFICES LIBEŇ s.r.o. | ECM Byty, s.r.o. | REZIDENCE UNHOŠŤ, a.s. |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 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 | 4,119 | (1,105) | 645 | (135) | 1,093 | (494) | – |
| FX adjustment (refer to Note 3.15.1) | (2,361) | (209) | (2,523) | – | (350) | 4 | 25 |
| Effect in movement in foreign exchange rate (refer to Note 3.27.4) | 2,714 | 273 | 2,567 | (264) | 362 | 23 | (14) |
| Disposals | (337) | – | – | – | – | (330) | – |
| Disposals out of the Group | – | – | – | (27,101) | – | – | – |
| **Balance at 31 December 2007** | **83,398** | **14,202** | **80,909** | **–** | **11,381** | **820** | **–** |
| **Balance at 1 January 2008** | **83,398** | **14,202** | **80,909** | **–** | **11,381** | **820** | **–** |
| Acquisitions | 4,563 | 1,181 | 1,202 | – | 31 | 489 | – |
| Transfers to/from investment property under construction | – | – | – | – | – | – | – |
| Transfers to/from trading property | – | – | – | – | – | – | – |
| Transfers to/from property, plant and equipment | (16) | – | – | – | – | – | – |
| Transfers from trade and other receivables | – | – | – | – | – | – | – |
| Other transfers | – | – | – | – | – | – | – |
| Acquisitions through business combinations | – | – | – | – | – | – | – |
| Fair value adjustment | (33,663) | (51) | (18,584) | – | (1,845) | (931) | – |
| FX adjustment (refer to Note 3.15.1) | 1,034 | 177 | 1,005 | – | 142 | – | – |
| Effect in movement in foreign exchange rate (refer to Note 3.27.4) | 1,100 | (169) | 262 | – | (10) | 47 | – |
| Disposals | – | (1,286) | – | – | – | (322) | – |
| Disposals out of the Group | – | – | – | – | – | – | – |
| **Balance at 31 December 2008** | **56,416** | **14,054** | **64,794** | **–** | **9,699** | **103** | **–** |

| In EUR thousand | CITY TOWER s.r.o. | Ryazan Shopping Mall Ltd. | NATIONAL BUSINESS CENTRE Ostrava a.s. + NBC National s.r.o. | GRASLON a.s. | Palisády, s.r.o. | ECM POZNAŇ RESIDENCE sp. z o.o. | LUNZIE a.s. | ECM Property Holding (Tinajin) Co Ltd. | OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | URBARIUM s.r.o. | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 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 | 39,742 | 11,204 | 213 | 11,075 | (220) | 2,821 | 3,485 | – | – | – | 72,443 |
| FX adjustment (refer to Note 3.15.1) | (2,453) | – | (487) | – | – | – | – | – | – | – | (8,354) |
| Effect in movement in foreign exchange rate (refer to Note 3.27.4) | 5,222 | 652 | 483 | 643 | 35 | 418 | 155 | – | – | – | 13,269 |
| Disposals | – | – | – | – | – | – | – | – | – | – | (667) |
| Disposals out of the Group | – | – | – | – | – | – | – | – | – | – | (27,101) |
| **Balance at 31 December 2007** | **126,580** | **15,802** | **6,801** | **15,578** | **870** | **10,141** | **10,801** | **–** | **–** | **–** | **377,283** |
| **Balance at 1 January 2008** | **126,580** | **15,802** | **6,801** | **15,578** | **870** | **10,141** | **10,801** | **–** | **–** | **–** | **377,283** |
| Acquisitions | 18,606 | 3,599 | 331 | 393 | 156 | 329 | 563 | 839 | 941 | 301 | 33,524 |
| Transfers to/from investment property under construction | – | – | – | – | – | – | – | 114,802 | – | – | 114,802 |
| Transfers to/from trading property | (525) | 952 | – | – | – | – | – | – | 406 | – | 833 |
| Transfers to/from property, plant and equipment | – | – | – | – | – | – | – | – | – | – | (16) |
| Transfers from trade and other receivables | – | – | – | – | – | – | – | – | – | – | – |
| Other transfers | – | – | – | – | – | – | – | – | – | – | – |
| Acquisitions through business combinations | – | – | – | – | – | – | – | – | 17,671 | – | 17,671 |
| Fair value adjustment | (12,138) | 9,138 | 1,396 | (4,555) | (210) | (2,520) | (2,798) | 2,699 | 19,388 | – | (44,674) |
| FX adjustment (refer to Note 3.15.1) | 1,572 | 2,291 | 85 | 194 | 11 | 1,625 | 134 | – | 2,503 | – | 10,773 |
| Effect in movement in foreign exchange rate (refer to Note 3.27.4) | (2,033) | (1,785) | (214) | 110 | (7) | (1,076) | 28 | 7,286 | (3,513) | (22) | 4 |
| Disposals | (74) | – | – | – | – | – | – | – | – | – | (1,682) |
| Disposals out of the Group | – | – | – | – | – | – | – | – | – | – | – |
| **Balance at 31 December 2008** | **131,988** | **29,997** | **8,399** | **11,720** | **820** | **8,499** | **8,728** | **125,626** | **37,396** | **279** | **508,518** |

Investment property comprises advances paid to suppliers of TEUR 578 (2007 – TEUR 146).

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

Development of the project ECMall (Globe Plaza – Plot 23) in ECM Property Holding (Tianjin) Co Ltd. was finalized in 4th quarter of 2008. As a result, the property was reclassified from Investment property under construction to Investment property and re-measured at fair value through profit or loss.

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 3.6.4).

Disposals in 2008 consist of the sales of investment property from VARENSKÁ OFFICE CENTER, a.s. (for more details refer to Note 3.6.1), ECM Byty, s.r.o. (Note 3.6.2) and CITY TOWER s.r.o. (Note 3.6.3). Disposals in 2007 comprise the sale of investment property from ECM Byty, s.r.o. (for more details refer to Note 3.6.2).
In 2007, REZIDENCE UNHOŠŤ a.s. obtained a construction permit and started to implement a residential project. As a result, REZIDENCE UNHOŠŤ a.s. was transferred to trading property in 2007 (for more details refer to Note 3.24.)

**Description of investment property**

| Company | Project | Description | Location (City, State) | Estimated total rentable saleable space (m²)/ |
|---|---|---|---|---|
| | CITY | Multi-purpose development scheme (see a separate description below) in Prague 4/Pankrác district | Prague, Czech Republic | 136,012 |
| VARENSKÁ OFFICE CENTER, a.s. | VARENSKÁ OFFICE CENTER | Office building known as small and large building – include office building, retail, storage, circulation areas and lobby | Ostrava, Czech Republic | 12,177 |
| ECM OFFICES LIBEŇ s.r.o. | CCS HQ Building | Multi-purpose office building, currently used for generating of rental income | Prague, Czech Republic | 7,267 |
| ECM Byty s.r.o. | RESIDENCE LETŇANY | Residential project | Prague, Czech Republic | 4,458 |
| ECM CITY EMPIRIA a.s. | CITY EMPIRIA | Multi-purpose office building with parking, currently used for generating of rental income | Prague, Czech Republic | 24,769 |
| CITY TOWER, s.r.o. | CITY TOWER | Office building with retail, storage, parking, and restaurant facilities | Prague, Czech Republic | 49,122 |
| National Business Centre Ostrava a.s. and NBC National s.r.o. | PALACE CENTER | Multi-purpose project – retail and residential facilities with parking | Ostrava, Czech Republic | 47,114 |
| Ryazan Shopping Mall Ltd. | RYAZAN SHOPPING CENTER | Multi-purpose project – retail building with parking | Ryazan, Russia | 69,496 |
| GRASLON s.r.o. | BREZNICKA CENTER ZLÍN | Retail centre with parking | Zlín, Czech Republic | 29,932 |
| Palisády, a.s. | PALISADES | Residential project | Prague, Czech Republic | 3,311 |
| ECM POZNAŇ RESIDENCE sp. z o.o. | POZNAŇ | Residential project | Poznaň, Poland | 50,663 |
| LUNZIE a.s. | PARK VIEW II | Residential project | Prague, Czech Republic | 11,186 |
| ECM Property Holding (Tianjin) Co Ltd. | ECMall (Globe Plaza – Plot 23) | Multi-purpose commercial building (retail, services, entertainment, parking) | Beijing, China | 28,966 |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | East Point Office Park | Office buildings with complementary restaurant, retail facilities and parking | Moscow, Russia | 75,935 |
| URBARIUM s.r.o. | URBARIUM | Land for undetermined future use | Běchovice, Czech Republic | 8,100 |

**Detailed description of CITY project**

| | | | | |
|---|---|---|---|---|
| CITY PARKVIEW s.r.o. | CITY COURT | Office building with kitchen, canteen, retail, storage and parking | Czech Republic | 17,154 |
| EPOQUE HOTEL a.s. | CITY EPOQUE – HOTEL | 320 hotel rooms on 22 floors, 4 basement floors with parking places, infrastructure, convention facilities | Czech Republic | 15,218 |
| EPOQUE-LANCASTER a.s. | CITY EPOQUE – RESIDENCE | 170 apartments on 30 floors, 326 basement parking places, complementary services | Czech Republic | 25,340 |
| CITY DECO s.r.o. | CITY DECO | Multi-purpose project with offices, retail and parking | Czech Republic | 17,661 |
| TABULA MAIOR, a.s. | CITY FORUM | Congress centre project with offices and retail | Czech Republic | 4,432 |
| CITY ELEMENT s.r.o. | CITY ELEMENT | Office building project with retail and parking | Czech Republic | 8,332 |
| TABULA MINOR, a.s. | CITY EMPIRIA IV | Residential building with parking lots, offices and retail units where the existing garage building is located, currently in the acquisition phase | Czech Republic | 47,875 |

## 3.18. Investment property under construction

| In EUR thousand | ECM Property Holding (Tianjin) Co Ltd. | Metropolis Holding (Tianjin) Co., Ltd. | SAZERAC a.s. | Total |
|---|---|---|---|---|
| Balance at 1 January 2007 | – | – | – | – |
| Acquisitions | 19,732 | 9,231 | – | 28,963 |
| Effect of movement in foreign exchange | – | – | – | – |
| Disposals | – | – | – | – |
| **Balance at 31 December 2007 restated** | **19,732** | **9,231** | **–** | **28,963** |
| **Balance at 1 January 2008** | **19,732** | **9,231** | **–** | **28,963** |
| Acquisitions | 90,998 | 41,970 | – | 132,968 |
| Transfer to/from trading property | 2,935 | 979 | 611 | 4,525 |
| Transfer to/from property, plant and equipment | – | – | 773 | 773 |
| Transfer to/from investment property | (114,802) | – | – | (114,802) |
| Effect in movement in foreign exchange rate | 1,137 | 4,055 | (102) | 5,090 |
| Disposals | – | – | – | – |
| **Balance at 31 December 2008** | **–** | **56,235** | **1,282** | **57,517** |

Development of the project ECMall (Globe Plaza – Plot 23) in ECM Property Holding (Tianjin) Co Ltd. was finalized. As a result, the property was reclassified to Investment property and re-measured at fair value through profit or loss.

Investment property under construction comprises advances paid for the purchase price of the Chinese projects of TEUR 0 (2007 – TEUR 28,963), out of which advances paid by ECM Property Holding (Tianjin) Co Ltd. amounted to TEUR 0 (2007 – TEUR 19,732) and Metropolis Holding (Tianjin) Co., Ltd. amounted to TEUR 0 (2007 – TEUR 9,231).

Investment property under construction includes the capitalised borrowing cost of TEUR 2,297 (2007 – TEUR 0).

**Description of investment property under construction**

| Company | Project | Description | Location (City, State) | Estimated total rentable/ saleable space (m²) |
|---|---|---|---|---|
| Metropolis Holding (Tianjin) Co.,Ltd | Metropolis Tower | Office building with lobby, restaurant and parking facilities | Beijing, China | 27,000 |
| SAZERAC, a.s. | Husova Retail | Retail centre with parking | České Budějovice, Czech Republic | 32,628 |

## 3.19. Property, plant and equipment

| In EUR thousand | Land and build-ings | Plant and equipment | Property under construction | Advance payments | Other | Finance leases | Total |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| Balance at 1 January 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 investment property | 14 | – | – | – | – | – | **14** |
| Disposals | (38) | (482) | (2,386) | – | – | – | **(2,906)** |
| Effect of movements in foreign exchange rate | 49 | 70 | (11) | 5 | 3 | (133) | **(17)** |
| **Balance at 31 December 2007** | **1,281** | **2,345** | **321** | **161** | **93** | **13,719** | **17,920** |
| Balance at 1 January 2008 | 1,281 | 2,345 | 321 | 161 | 93 | 13,719 | **17,920** |
| Acquisitions through business combinations | – | 172 | – | – | – | – | **172** |
| Other acquisitions | – | 588 | 7,106 | 183 | – | – | **7,877** |
| Transfer to/from investment property | – | – | – | 22 | – | – | **22** |
| Transfer to/from investment property under construction | – | – | (773) | – | – | – | **(773)** |
| Disposals | (692) | (33) | (29) | (90) | – | (650) | **(1,494)** |
| Effect of movements in foreign exchange rate | 36 | (81) | (469) | (10) | (1) | (107) | **(632)** |
| **Balance at 31 December 2008** | **625** | **2,991** | **6,156** | **266** | **92** | **12,962** | **23,092** |
| | | | | | | | |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | | | | | | |
| Balance at 1 January 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 rate | (3) | (55) | – | – | – | 553 | **495** |
| **Balance at 31 December 2007** | **(69)** | **(1,788)** | **–** | **–** | **–** | **(2,096)** | **(3,953)** |
| Balance at 1 January 2008 | (69) | (1,788) | – | – | – | (2,096) | **(3,953)** |
| Acquisitions through business combinations | – | (63) | – | – | – | – | **(63)** |
| Depreciation charge for the year | (48) | (236) | – | – | – | (421) | **(705)** |
| Transfer to/from investment property | – | – | – | (6) | – | – | **(6)** |
| Disposals | 26 | 104 | – | – | – | 352 | **482** |
| Effect of movements in foreign exchange rate | 2 | 35 | – | – | – | 24 | **61** |
| **Balance at 31 December 2008** | **(89)** | **(1,948)** | **–** | **(6)** | **–** | **(2,141)** | **(4,184)** |
| | | | | | | | |
| CARRYING AMOUNTS | | | | | | | |
| At 1 January 2007 | 271 | 640 | 2,084 | 141 | 90 | 11,609 | **14,835** |
| At 31 December 2007 | 1,212 | 557 | 321 | 161 | 93 | 11,623 | **13,967** |
| | | | | | | | |
| At 1 January 2008 | 1,212 | 557 | 321 | 161 | 93 | 11,623 | **13,967** |
| At 31 December 2008 | 536 | 1,043 | 6,156 | 260 | 92 | 10,821 | **18,908** |




### Land and buildings

| In EUR thousand | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ECM Real Estate Investments, k.s. | – | 156 |
| ECM Finance a.s. | 7 | 58 |
| ECM Facility a.s. | 500 | 967 |
| ADARKON a.s. | 17 | 18 |
| EMPIRIA BUILDING s.r.o. | 12 | 13 |
| **Total** | **536** | **1,212** |

### Plant and equipment

| In EUR thousand | 31 December 2008 | 31 December 2007 |
|---|---|---|
| TABULA MAIOR, a.s. | 111 | 154 |
| ECM Real Estate Investments, k.s. | 400 | 79 |
| ECM OFFICES LIBEŇ s.r.o. | 49 | 39 |
| ECM Facility a.s. | 105 | 13 |
| OPTISERVIS,spol. s r.o. | 6 | 6 |
| ECM Finance a.s. | 10 | (26) |
| EPOQUE-LANCASTER a.s. | 5 | 7 |
| ECM CITY EMPIRIA a.s. | 72 | 150 |
| CITY ELEMENT s.r.o. | 6 | 7 |
| VARENSKÁ OFFICE CENTER, a.s. | 123 | 128 |
| ECM Hotel Operations Pilsen s.r.o. | 2 | – |
| ECM Hotel Operations EUROPORT s.r.o. | 4 | – |
| ECM Real Estate Consulting (Beijing) | 22 | – |
| OOO ECM Russia | 128 | – |
| **Total** | **1,043** | **557** |

### Property under construction

| In EUR thousand | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ECM Real Estate Investments, k.s. | 317 | 73 |
| ECM Facility a.s. | 4 | 4 |
| OPTISERVIS,spol. s r.o. | – | 3 |
| ECM Finance a.s. | 2 | 26 |
| ADARKON a.s. | 38 | 38 |
| ECM Czech Services, a.s. (STROMOVKA OBCHODNÍ CENTRUM, a.s.) | 82 | 84 |
| SAZERAC a.s. | – | 93 |
| CITY TOWER, s.r.o. | 5,710 | – |
| ECM Hotel Operations EUROPORT s.r.o. | 3 | – |
| **Total** | **6,156** | **321** |

### Advance payments for tangible fixed assets

| In EUR thousand | 31 December 2008 | 31 December 2007 |
|---|---|---|
| LANCASTER a.s. | 15 | – |
| ECM Finance a.s. | – | 85 |
| ECM Facility a.s. | 1 | 1 |
| TORSAR a.s. | 75 | 75 |
| ECM Real Estate Investments, k.s. | 169 | – |
| **Total** | **260** | **161** |

**Finance leases**

| In EUR thousand | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ECM Finance a.s. – Hotel Marriott | 10,806 | 11,287 |
| ECM Finance a.s. – Vila C | – | 304 |
| ECM Facility a.s. | 15 | 32 |
| **Total** | **10,821** | **11,623** |

## 3.20. Intangible assets

| In EUR thousand | Software | Other intangible assets | Total | Goodwill |
|---|---|---|---|---|
| COST | | | | |
| Balance at 1 January 2007 | 602 | 653 | 1,255 | 660 |
| Acquisitions through business combinations | – | – | – | 7,459 |
| Other acquisitions | 106 | 262 | 368 | – |
| Disposal | (2) | (106) | (108) | (317) |
| Effect of movements in foreign exchange rate | 20 | 36 | 56 | (1) |
| **Balance at 31 December 2007** | **726** | **845** | **1,571** | **7,801** |
| | | | | |
| Balance at 1 January 2008 | 726 | 845 | 1,571 | 7,801 |
| Acquisitions through business combinations | 4 | – | 4 | 1,903 |
| Other acquisitions | 261 | 78 | 339 | – |
| Disposal | – | (158) | (158) | – |
| Effect of movements in foreign exchange rate | (28) | 1 | (27) | (1,445) |
| **Balance at 31 December 2008** | **963** | **766** | **1,729** | **8,259** |
| | | | | |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES | | | | |
| Balance at 1 January 2007 | (563) | (58) | (621) | – |
| Amortisation for the year | (39) | (453) | (492) | – |
| Impairment/Reversal of impairment | – | – | – | (325) |
| Acquisitions through business combinations | – | – | – | – |
| Transfer from property, plant and equipment | – | – | – | – |
| Disposal | 2 | 2 | 4 | 317 |
| Effect of movements in foreign exchange rate | (20) | (21) | (41) | – |
| **Balance at 31 December 2007** | **(620)** | **(530)** | **(1,150)** | **(8)** |
| | | | | |
| Balance at 1 January 2008 | (620) | (530) | (1,150) | (8) |
| Amortisation for the year | (98) | (49) | (147) | – |
| Impairment/Reversal of impairment | – | – | – | (4,995) |
| Acquisitions through business combinations | (3) | – | (3) | – |
| Transfer from property, plant and equipment | – | – | – | – |
| Disposal | – | 1 | 1 | – |
| Effect of movements in foreign exchange rate | 16 | 5 | 21 | – |
| **Balance at 31 December 2008** | **(705)** | **(573)** | **(1,278)** | **(5,003)** |
| | | | | |
| CARRYING AMOUNTS | | | | |
| At 1 January 2007 | **39** | **595** | **634** | **660** |
| At 31 December 2007 | **106** | **315** | **421** | **7,793** |
| | | | | |
| At 1 January 2008 | **106** | **315** | **421** | **7,793** |
| At 31 December 2008 | **258** | **193** | **451** | **3,256** |




In 2008, the addition to goodwill through business combinations of TEUR 1,903 was recorded in connection with the following acquisitions:

- 100% share in ECM Real Estate Consulting (Beijing) Co., Ltd. on 21 March 2008; and
- 50% share in OPTISERVIS,spol. s r.o. on 28 May 2008.

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

| Company | Purchase price | Net assets and liabilities | Goodwill |
|---|---|---|---|
| ECM Real Estate Consulting (Beijing) Co., Ltd. | 206 | (34) | 240 |
| OPTISERVIS,spol. s r.o. | 1,882 | 219 | 1,663 |
| **Total** | **2,088** | **185** | **1,903** |

The Company paid a premium for the synergistic effects and these effects are part of goodwill acquired.

In 2007, the addition to goodwill through business combinations of TEUR 7,459 was recorded in connection with the following acquisitions:

- 91% share in Ryazan Hold Company Ltd. and its 100% subsidiary PROSPECT LLC 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.

In 2007, the purchase prices, net identifiable assets and liabilities in at fair values and goodwill were as follows:

| Company | Purchase price | Net assets and liabilities | Goodwill |
|---|---|---|---|
| Ryazan Hold Company Ltd. + PROSPECT LLC | 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 synergistic effects and these effects are part of the goodwill acquired.

In connection with annual impairment test, the Group decided to recognize impairment loss on goodwill in total amount of TEUR 4,995 (2007 – TEUR 325). For further information refer to Note 3.11.2.

## 3.21. Investments in associates, joint ventures and other investments

### 3.21.1. Equity accounted investees

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

| | Country | Ownership | | Investment | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| EKZ Tschechien 4 Immobiliengesellschaft s.r.o. | Czech Republic | 50% | 50% | 76 | 24 |
| East Point Holding B.V. (1) | Netherlands | 30% | 30% | – | – |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” (1) | Russia | 30% | 30% | – | – |

(1) The Group started to control the operation and activities of East Point Holding B.V. and its wholly owned subsidiary OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” regardless of ownership interest as the development project in OAO Yugo-Vostochnaya promyshlennaya kompaniya “Kartontara” is under control of the Group. Therefore, the method of full consolidation has been applied since 31 March 2008.

The Group's share of the post-acquisition profit or loss of the above associates recognised as at 31 December 2008 is TEUR 75 (2007 – TEUR 1,907). As at 31 December 2008, post-acquisition profit of associates does not comprise the amount of TEUR 1,886 attributable to ECM Airport Center a.s. which was sold on 18 August 2007.

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

| In EUR thousand | Assets | Liabilities | Equity | Profit |
|---|---|---|---|---|
| 2008 | | | | |
| EKZ Tschechien 4 Immobiliengesellschaft s.r.o. | 2,930 | (2,778) | (152) | (108) |
| 2007 | | | | |
| EKZ Tschechien 4 Immobiliengesellschaft s.r.o. | 1,344 | (1,292) | (52) | (34) |
| East Point Holding B.V. | 9,919 | (9,885) | (34) | (16) |
| OAO Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" | 12,896 | (17,246) | 4,350 | 251 |

### 3.21.2. Joint ventures accounted for using the method of proportionate consolidation

The Group does not participate in any joint venture as at 31 December 2008 and also does not use the proportionate consolidation method. The Group had the following investments in joint ventures which were accounted for using the method of proportionate consolidation in previous period:

| | Country of incorporation | Ownership interest | Ownership interest |
|---|---|---|---|
| | | 2008 | 2007 |
| OPTISERVIS,spol. s r.o. (1) | Czech Republic | 100% | 50% |

(1) On 28 May 2008, ECM Facility a.s. acquired 50% of shares of OPTISERVIS,spol. s r.o. As a result, this company is consolidated using the method of full consolidation as at 31 December 2008.

The following joint ventures were acquired in 2007 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 |

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

| In EUR thousand | OPTISERVIS,spol. s r.o (50%). |
|---|---|
| Property, plant and equipment | 10 |
| 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) |
| 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 financial information relating to joint ventures consolidated using the method of proportionate consolidation (50%) is summarised below:

| In EUR thousand | Assets | Liabilities | Equity | Post acquisition Profit/(Loss) |
|---|---|---|---|---|
| 2007 | | | | |
| OPTISERVIS,spol. s r.o. | 431 | (231) | (200) | – |

### 3.21.3. Other investments

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

| | Country | Ownership | | Investment | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| NBC Office | Czech Republic | 10% | 10% | 258 | 261 |
| OIK City Point Investment a.s. | Czech Republic | 5% | 5% | 54 | 56 |
| **Other investments** | | | | **312** | **317** |

## 3.22. Other loans

| In EUR thousand | 2008 | Average interest rate | 2007 | Average interest rate |
|---|---|---|---|---|
| Other loans | 2,526 | 8% | 7,802 | 8% |
| Total | 2,526 | | 7,802 | |

As at 31 December 2008, the most significant loans were provided to ECM Group N.V. in of TEUR 856, to Kanebo Investments S.A. of TEUR 447. As at 31 December 2007, provided loans comprise mainly TEUR 5,625 which was granted to East Point Holding B.V.

## 3.23. Assets and liabilities held for sale

### 3.23.1. 2P, s.r.o.

In 2007, the Group decided to sell 2P, s.r.o. Due to the sale, the assets and liabilities of 2P, s.r.o., were reported on the group level as assets and liabilities held for sale. The Group sold shares of 2P, s.r.o., with the effective date of 31 July 2008. The transfer of shares to CA Immo International AG was recorded in the Commercial Register of Companies as at 25 August 2008. For further information refer to Note 3.7.1.

| In EUR thousand | 12/31/2008 | 12/31/2007 |
|---|---|---|
| ASSETS HELD FOR SALE | | |
| 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 | | |
| 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)** |
| **Net Asset held for sale** | **–** | **1,991** |

## 3.24. Trading property

| In EUR thousand | CITY TOWER, s.r.o. | 2P, s.r.o. | REZIDENCE UNHOŠŤ a.s. | OOO ECM RUSSIA | Other | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 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 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 December 2007** | **8** | **–** | **6,407** | **–** | **7,119** | **13,534** |
| **Balance at 1 January 2008** | **8** | **–** | **6,407** | **–** | **7,119** | **13,534** |
| Acquisitions | – | – | 5,534 | 19 | 1,674 | 7,227 |
| Acquisitions through business combinations | – | – | – | 1,375 | 2 | 1,377 |
| Transfers to/from investment property | 525 | – | – | (952) | (406) | (833) |
| Transfers to/from investment property under construction | – | – | – | – | (4,525) | (4,525) |
| Transfers to/from property, plant and equipment | – | – | – | – | – | – |
| Transfers to/from Assets held for sale | – | – | – | – | (1,132) | (1,132) |
| Other transfers | (525) | – | – | – | 525 | – |
| Impairment/reversal of impairment | – | – | – | – | (1,177) | (1,177) |
| Disposals and other movements | – | – | – | (251) | (393) | (644) |
| Effect of movements in foreign exchange rate | – | – | (483) | (112) | 317 | (278) |
| **Balance at 31 December 2008** | **8** | **–** | **11,458** | **79** | **2,004** | **13,549** |

Trading property comprises advances paid to suppliers of TEUR 5 (2007 – TEUR 2).

Trading property includes borrowing cost in the amount of TEUR 328 (2007 – TEUR 67).

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. The cancellation was made on 20 December 2007. As a result of the cancellation, the related property was reclassified from trading property to investment property. For further detail refer to Note 3.12.

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

In connection with annual impairment test, the Group decided to recognize impairment loss on trading property in total amount of TEUR 1,177 (2007 – TEUR 0). For further information refer to Note 3.11.1.

**Description of trading property – inventory**

| Company | Project | Description | Location | Estimated total rentable/ saleable space ($m^2$) |
|---|---|---|---|---|
| REZIDENCE UNHOŠŤ a.s. | TERASY UNHOŠŤ | Residential project | Czech Republic | 14,278 |

## 3.25. Trade and other receivables

| In EUR thousand | 2008 | 2007 restated |
|---|---|---|
| Trade receivables (1) | 10,908 | 11,575 |
| Value added tax receivables | 3,569 | 6,098 |
| Pre-payments (2) | 3,314 | 3,277 |
| Revaluation of derivatives | 201 | 5,142 |
| Prepaid Expenses (3) | 4,401 | 2,434 |
| Estimated receivables | 1,168 | 1,205 |
| Receivables from employees | 89 | 128 |
| Receivable from retention (4) | 450 | – |
| Other receivables (5) | 600 | 3,990 |
| **Total** | **24,700** | **33,849** |

(1) Trade receivables are shown net of impairment losses amounting to TEUR (309) recognised in the current year (2007 – TEUR (274)). For details refer to Note 3.13 Other expenses.

(2) 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 2009. In 2007, the Company paid an advance on the cancellation fee of TEUR 2,500.

(3) Prepaid expenses primarily include:
— Expenses incurred in connection with the planned increase in the company's share capital (Equity Step-Up) of TEUR 1,389 before tax (31 December 2007 – TEUR 1,792). For further information refer to Note 3.27.2 Equity Step-Up.
— Discounts of rentals for the whole leasehold period of TEUR 1,720 provided to tenants by CITY TOWER s.r.o.

(4) Receivable from retention relates to transfer of shares of 2P, s.r.o., to CA Immo International AG. For further information refer to Note 3.7.1.

(5) Other receivables are shown net of provisions for irrecoverable amounts amounting to TEUR (1,526) recognised in the current year (2007 – TEUR 0). For details refer to Note 3.13 Other expenses.

## 3.26. Cash and cash equivalents

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Bank balances | 33,558 | 36,551 |
| Cash and cash equivalents | 69 | 202 |
| **Cash and cash equivalents in the cash-flow statement** | **33,627** | **36,753** |

## 3.27. Changes in equity

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

### 3.27.1. Share capital and share premium

| In EUR thousand | Ordinary shares 2008 | Ordinary shares 2007 |
|---|---|---|
| Issued at 1 January | 7,229 | 6,350 |
| Newly issued shares | – | 216 |
| Equity Step-Up | 425 | 663 |
| Private placement of shares | 4,022 | – |
| Issued at 31 December | 11,676 | 7,229 |

The subscribed capital of the Company as at 31 December 2008 was TEUR 11,676 (2007 – TEUR 7,229), comprising 6,868,092 shares (2007 – 4,252,500 shares), each with a nominal value of EUR 1.7 (2007 – 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 5 June 2008 and the following resolutions were adopted:

1) The general meeting resolved 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 authorised 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 authorise 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 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 laws and articles of association.

### 3.27.2. 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 2008, total expenses incurred in connection with the planned increase in the Company's share capital amounted to TEUR 1,389 before tax (2007 – TEUR 1,792). The whole amount is presented under Trade and Other Receivables and will be charged to share premium in the following periods based on the number of issued shares.

### 3.27.3. Private placement

On 19 December 2008, the Company issued 2,365,592 shares which were subscribed by the major shareholder ECM Group N.V. The issue was based on a Subscription Agreement concluded between the Company and ECM Group N.V. on 16 December 2008

As at 31 December 2008, total expenses incurred in connection with the private placement of shares amounted to TEUR 351 before tax (TEUR 249 net of tax effect). The whole amount net of tax effect is charged to share premium related to private placement of shares.

### 3.27.4. 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 (d)).

### 3.27.5. Other changes in equity

The effect of transactions charged directly in equity as at 31 December 2008 relates to the sale of 15% of shares of Ryazan Investors Company Ltd. to PSJ NEW NV. For further information refer to Note 3.1.3 Changes in the Group.

As at 31 December 2008, items recorded directly in equity comprise discounting effect related to interest-free loans granted by minority shareholder Nordevo to Hong Kong entities

As at 31 December 2007, other changes in equity primarily include an amount of TEUR 34,475 charged against equity as a result of the redemption of a 2006 warrant, refer also to Note 3.29.

### 3.27.6. Legal reserves

Legal reserves comprise mainly the legal reserves of ECM REAL ESTATE INVESTMENTS A.G. of TEUR 108.
The remaining TEUR 85 consists of legal reserves of the Czech entities.

Luxembourg companies are required to appropriate to legal reserve a minimum of 5% of the annual net income, after deducting any losses brought forward, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed in the form of cash dividends, or otherwise, during the life of the Company.

### 3.27.7. Earnings per share

Basic earnings per share 2008

**Profit attributable to ordinary shareholders**

| In EUR thousand | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| Net Profit/(Loss) attributable to ordinary shareholders for the year ended 31 December 2008 | (102,489) | – | (102,489) |
| Dividends on non-redeemable preference shares | – | – | – |
| **Net Profit/(Loss) attributable to ordinary shareholders** | **(102,489)** | **–** | **(102,489)** |

**Weighted average number of ordinary shares**

| In thousands of shares | Ordinary shares | Weight | Weighted average |
|---|---|---|---|
| Issued ordinary shares at 1 January 2008 | 4,252 | 360 | 4,252 |
| Effect of shares issued in 3rd quarter 2008 – Equity Step-Up | 250 | 100 | 69 |
| Effect of shares issued in 4th quarter 2008 – Private Placement | 2,366 | 10 | 66 |
| Weighted average number of ordinary shares as 31 December 2008 | | | 4,387 |
| **Earnings per share 2008** | | | **(23.4)** |

Diluted earnings per share 2008

**Profit attributable to ordinary shareholders (diluted)**

| In EUR thousand | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| Net Profit/(Loss) attributable to ordinary shareholders for the year ended 31 December 2008 | (102,489) | – | (102,489) |
| **Net Profit/(Loss) attributable to ordinary shareholders** | **(102,489)** | **–** | **(102,489)** |

**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 December 2008 | 4,387 | | 4,387 |
| Effect of convertible warrants from convertible bonds 2006 unconverted in bonds 2007 | 780 | 360 | 780 |
| Effect of convertible warrants from convertible bonds 2007 | 1,857 | 360 | 1,857 |
| Weighted average number of ordinary shares (diluted) as 31 December 2008 | | | 7,024 |
| **Earnings per share 2008 (diluted)** | | | **(14.6)** |

Basic earnings per share 2007

**Profit attributable to ordinary shareholders**

| In EUR thousand | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| Net Profit/(Loss) attributable to ordinary shareholders for the year ended 31 December 2007 | 25,833 | – | 25,833 |
| Dividends on non-redeemable preference shares | – | – | – |
| **Net Profit/(Loss) attributable to ordinary shareholders** | **25,833** | **–** | **25,833** |

Weighted average number of ordinary shares

| In thousands of shares | Ordinary shares | Weight | Weighted average |
|---|---|---|---|
| Issued ordinary shares at 1 January 2007 | 3,735 | 360 | 3,735 |
| Effect of own shares held | – | 360 | – |
| Effect of shares issued in 1st quarter 2007 | 127 | 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 2007 | | | 4,011 |
| **Earnings per share 2007** | | | **6.4** |

Diluted earnings per share 2007

**Profit attributable to ordinary shareholders (diluted)**

| In EUR thousand | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| Net Profit/(Loss) attributable to ordinary shareholders for the year ended 31 December 2007 | 25,833 | – | 25,833 |
| **Net Profit/(Loss) attributable to ordinary shareholders** | **25,833** | **–** | **25,833** |

**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 December 2007 | 4,011 | | 4,011 |
| Effect of convertible warrants from convertible bonds 2006 converted in bonds 2007 | 948 | 270 | 711 |
| Effect of convertible warrants from convertible bonds 2006 unconverted in bonds 2007 | 780 | 360 | 780 |
| Effect of convertible warrants from convertible bonds 2007 | 1,857 | 90 | 464 |
| Weighted average number of ordinary shares (diluted) as 31 December 2007 | | | 5,967 |
| **Earnings per share 2007 (diluted)** | | | **4.3** |

## 3.28.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 3.35.

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Current Liabilities | | |
| Loans from third parties | 15,072 | 10,538 |
| Loans from third parties – BOHL MEZZANINE INVESTMENT S.A. | 1,402 | 1,419 |
| Loans from related parties | 1,749 | 20 |
| Bank loans | 22,056 | 16,337 |
| **Total** | **40,279** | **28,314** |

The Group also withdrew the bank overdraft in the amount of TEUR 1,555 as at 31 December 2008 (2007 – TEUR 15).

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Non-current Liabilities | | |
| Loans from third parties | 65,595 | 18,274 |
| Loans from third parties – BOHL MEZZANINE INVESTMENT S.A. | – | 1,612 |
| Loans from related parties | – | – |
| Bank loans | 156,367 | 129,911 |
| **Total** | **221,962** | **149,797** |

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

| In EUR thousand | Amount as at 31 December 2008 | Payable in 1–5 years | Payable after 5 years |
|---|---|---|---|
| Loans from third parties | 65,595 | 65,595 | – |
| Loans from related parties | – | – | – |
| Bank loans | 156,367 | 28,411 | 127,956 |
| **Total** | **221,962** | **94,006** | **127,956** |

| In EUR thousand | Amount as at 31 December 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** |

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 EUR thousand | | | |
|---|---|---|---|
| **Entity** | **Assets pledged by the entity** | **Carrying amount of pledged assets** | |
| | | **2008** | **2007** |
| LANCASTER a.s. | Land, trade receivables | – | 5,320 |
| EPOQUE-LANCASTER a.s. | Land, trade receivables | 16,178 | 34,372 |
| EPOQUE HOTEL a.s. | Land, trade receivables | 15,861 | 15,807 |
| CITY TOWER, s.r.o. (SPV TOWER, s.r.o.) | Land, trade receivables, receivables | | |
| from insurance contracts, shares | 143,396 | 122,372 | |
| TABULA MAIOR, a.s. | Land, trade receivables, receivables | | |
| from insurance contracts, receivables from construction contracts | 9,984 | 7,777 | |
| CITY PARKVIEW s.r.o. (SPV Court, s.r.o.) | Land | 9,151 | 9,821 |
| 2 P, s.r.o. | Current account receivables, land, receivables from insurance contracts | – | 25,082 |
| ECM CITY EMPIRIAa a.s. | Land, building, trade receivables, shares | 78,208 | 90,978 |
| ECM OFFICES LIBEŇ s.r.o. | Land, shares, receivables from insurance contracts, accounts receivables, cash and bank deposits | 10,778 | 12,034 |
| VARENSKÁ OFFICE CENTER a.s. | Land, trade receivables | 15,220 | 15,255 |
| ECM Finance a.s. | Shares, accounts receivables | 15,126 | 30,996 |
| REZIDENCE UNHOŠŤ a.s | Land | 13,938 | 8,118 |
| Palisády a.s. | Land, shares, trade receivables | – | 893 |
| CITY DECO s.r.o. | Shares, land, receivables | 2,211 | 6,779 |
| CITY ELEMENT s.r.o. | Shares, land, receivables | 4,209 | 10,458 |
| LUNZIE a.s. | Fixed assets, cash and bank deposits | 8,730 | – |
| ECM POZNAŇ REZIDENCE sp. z o.o. | Buildings, receivables | 8,500 | – |
| NATIONAL BUSINESS CENTRE Ostrava a.s. | Shares, bank accounts | 287 | |
| ECM Facility a.s. | Technology, guarantee declaration, shares, bank accounts | 430 | – |
| **Total** | | **352,207** | **396,062** |

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

Refer to Note 3.36 Contingencies.

## 3.29. 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 converted into 16,870 new issued bonds with redeemable warrants attached in the fourth quarter of 2007. In the fourth quarter of 2007, the Company further issued 9,662 bonds with warrants attached.

| **In EUR thousand** | **2008** | **2007** |
|---|---|---|
| Number of convertible notes | 26,532 | 26,532 |
| Proceeds from issue of convertible notes (2) | 94,520 | 94,520 |
| Transaction costs | (4,226) | (4,226) |
| Net proceeds | 90,294 | 90,294 |
| Amount classified as equity (3) | (7,438) | (7,438) |
| Amount classified as derivative (1) | (5,027) | (5,027) |
| Accrued interest | 8,186 | 2,424 |
| **Carrying amount of liability** | **86,015** | **80,253** |



(1) The Group identified a derivative embedded in the value of convertible bonds. The nominal value of the derivative is TEUR 14,178 (31 December 2007 – TEUR 14,178). The fair value of the derivative was separated and presented on the face of the balance sheet as a long-term liability from derivatives. The fair value of the derivative was TEUR 5,027 as at the date of separation and TEUR 10,458 as at 31 December 2008 (TEUR 5,521 as at 31 December 2007). For further information refer to Note 3.35.5 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 the 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 the 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 represents the rate of one share for each warrant. Seventy warrants are attached to each bond.

The 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 the interest payment date) at par plus the interest amount accrued until the early redemption date.

## 3.30. Other bonds

Starting from 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 up to a maximum value of TCZK 1,000,000.

| **In EUR thousand** | **2008** | **2007** |
|---|---|---|
| Number of bearer bonds | 800 | 800 |
| Proceeds from issue of bearer bonds | 28,510 | 28,510 |
| Transaction costs | (245) | (245) |
| Net proceeds | 28,265 | 28,265 |
| FX translation as at 31 December | 1,291 | 1,543 |
| Accrued interest | 611 | 530 |
| **Carrying amount of liability** | **30,167** | **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 6.53% p.a. in the first quarter of 2008, to 7.10% in the second and third quarters of 2008 and to 6.82% in the fourth quarter of 2008 (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.

### 3.31. Trade and other payables

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Trade payables (1) | 97,480 | 15,754 |
| Payable to the shareholder resulting from purchase of own shares | – | 2,325 |
| Advances received (2) | 12,378 | 4,028 |
| Payables resulting from the purchase of financial Assets | 18 | 18 |
| Estimated payables (4) | 4,636 | 12,449 |
| Income tax payables | 184 | 685 |
| Payables to employees, social security and health insurance, employees Income tax | 889 | 713 |
| Accrued Expenses | 285 | 393 |
| Value added tax payables | 339 | 102 |
| Deferred revenues | 649 | 383 |
| Revaluation of derivatives | 13,309 | 1,233 |
| Other payables (3) | 6,851 | 4,331 |
| **Total** | **137,018** | **42,414** |

(1) Trade payables increased by TEUR 81,726 mainly due to the development of projects in ECM Property Holding (Tianjin) Co Ltd. and Metropolis Holding (Tianjin) Co., Ltd. Trade payables of Metropolis Holding (Tianjin) Co., Ltd. amount to TEUR 26,156 (2007 – TEUR 72) and trade payables of Metropolis Holding (Tianjin) Co., Ltd. amount to TEUR 56,319 (2007 – TEUR 51).

(2) Advances received comprise mainly
— Advances of TEUR 8,693 (2007 – TEUR 778) received by CITY TOWER s.r.o. for fit-outs from tenants
— Advances of TEUR 2,280 (2007 – TEUR 1,537) received by REZIDENCE UNHOŠŤ a.s. for residential project TERASY UNHOŠŤ from buyers

(3) As at 31 December 2008, other payables comprise retentions of TEUR 6,584 due from CITY TOWER s.r.o. to Metrostav a.s.

(4) Estimates mostly relate to uninvoiced services related to development projects.

### 3.32. Provisions

The Group creates provisions mainly for onerous contracts, expected business risks, real estate-transfer tax and penalties. The provisions recorded by the Group as at 31 December 2008 amounted to TEUR 15,664 (2007 – TEUR 3,102).

| In EUR thousand | |
|---|---|
| Balance at 1 January 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 December 2007** | **3,102** |
| | |
| Balance at 1 January 2008 | 3,102 |
| Release of provisions during the year | (503) |
| Provisions created during the year | 15,359 |
| Provisions used during the year | (1,177) |
| Effect of movement in foreign exchange rate | (1,117) |
| **Balance at 31 December 2008** | **15,664** |




| In EUR thousand | |
|---|---|
| BALANCE AT 31 DECEMBER 2007 RESTATED | |
| Non-current | 1,000 |
| Current | 2,102 |
| **Total** | **3,102** |
| | |
| BALANCE AT 31 DECEMBER 2008 | |
| Non-current | 15,053 |
| Current | 611 |
| **Total** | **15,664** |

Based on market development and internal analysis, the Group created a provision for onerous contracts within the Hotel operations segment of TEUR 15,053 as at 31 December 2008 (2007 – TEUR 1,000).

### 3.33. Other long-term payables

As at 31 December 2008, other long-term liabilities amounted to TEUR 12,157 (2007 –TEUR 17,986), of which TEUR 10,932 (2007 – TEUR 13,548) related to finance lease liabilities and TEUR 714 (31 December 2007 – TEUR 4,097) related to retentions.

Non-cancellable finance lease rentals are payable as follows:

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Less than one year | 48 | – |
| Between one and five years | 298 | 432 |
| More than five years | 10,586 | 13,116 |
| **Total** | **10,932** | **13,548** |

During the year ended 31 December 2008, TEUR 688 was recognised as an interest expense in the income statement in respect of finance leases (2007 – TEUR 789).

### 3.34. Operating leases

#### 3.34.1. Contracts entered into by the Group as lessee

Non-cancellable operating lease rentals are payable as follows:

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Less than one year | 12,933 | 2,538 |
| Between one and five years | 40,582 | 10,040 |
| More than five years | 25,816 | 10,625 |
| **Total** | **79,331** | **23,203** |

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

#### 3.34.2. 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 EUR thousand | 2008 | 2007 |
|---|---|---|
| Less than one year | 5,405 | 6,808 |
| Between one and five years | 19,553 | 20,563 |
| More than five years | 18,828 | 5,296 |
| **Total** | **43,786** | **32,667** |

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.

## 3.35. Financial instruments

Exposure to various risks arises in the normal course of the Group's business. These risks include credit risk (refer to Note 3.35.1), capital risk (refer to Note 3.35.2), operational risk (refer to Note 3.35.3), market risks including currency risk, interest rate risk and price risk (refer to Note 3.35.4) and liquidity risk (refer to Note 3.35.5).

### 3.35.1. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a 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 2008 no guarantees were outstanding (2007 – none).

**Credit risk concentration**

| | Total credit exposure | Total credit exposure |
|---|---|---|
| | **2008** | **2007** |
| Amounts due from banks | 33,558 | 36,551 |
| Positive fair value of financial derivative transactions | 201 | 5,142 |
| Amounts due from customers and advances paid | 24,499 | 57,670 |
| **Total** | **58,258** | **99,363** |

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.

### 3.35.2. 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 2007.

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 implemented and developed its FX and IR hedging policy. This policy contains rules and methods on how to manage these risks.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 3.28, bonds with convertible warrants and other bonds disclosed in Notes 3.29 and 3.30 respectively, cash and cash equivalents and equity attributable to equity holders of the parent and to minorities, comprising issued capital, reserves and retained earnings as disclosed in Notes 3.26 and 3.27.

| **Gearing ratio<br>In EUR thousand** | **2008** | **2007** |
|---|---|---|
| Debt (1) | 378,423 | 288,702 |
| Cash and cash equivalents | 33,627 | 36,753 |
| Net debt | 344,796 | 251,949 |
| | | |
| Equity (2) | 95,346 | 147,956 |
| | **78%** | **63%** |

(1) Debt is defined as long and short-term borrowings, bonds with convertible warrants and other bonds as detailed in Note 3.29 and 3.30.

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

### 3.35.3. 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 Group assesses these risks on a regular basis and undertakes measures aimed at systematic detection and minimisation of these risks. In 2008, 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 amounts 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 all payments related to project acquisition, including the penalty fee, to the investor.

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

### 3.35.4. 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) Risk related to investment portfolio**

The total amount of Investment property valued using fair value method under IAS – 40 Investment property amounts to TEUR 508,518. For the sensitivity analyses the company selected five already finished projects in total value of TEUR 225,439 which compromises 44.33% of total value.

| Project | | CITY TOWER | CITY EMPIRIA + CITY FORUM | VARENSKÁ OFFICE CENTER | CCS Headquarters | Total | Difference |
|---|---|---|---|---|---|---|---|
| Net Rental Income | EUR | 9,555,948 | 5,626,476 | 1,297,162 | 865,165 | | |
| Initial Yield as of 12/31/2008 | | 7.24% | 7.74% | 9.23% | 8.92% | | |
| **OMV of Completed Scheme** | | **131,988,237** | **72,693,492** | **14,053,755** | **9,699,160** | **228,434,645** | |
| | | | | | | | |
| Net Rental Income | EUR | 9,555,948 | 5,626,476 | 1,297,162 | 865,165 | | |
| Yield Decreased by | –1.0% | 6.24% | 6.74% | 8.23% | 7.92% | | |
| **OMV of Completed Scheme** | | **153,140,199** | **83,478,877** | **15,761,380** | **10,923,802** | **263,304,257** | **34,869,612** |
| | | | | | | | |
| Net Rental Income | EUR | 9,555,948 | 5,626,476 | 1,297,162 | 865,165 | | |
| Yield Decreased by | –0.5% | 6.74% | 7.24% | 8.73% | 8.42% | | |
| **OMV of Completed Scheme** | | **141,779,650** | **77,713,761** | **14,858,666** | **10,275,120** | **244,627,197** | **16,192,552** |
| | | | | | | | |
| Net Rental Income | EUR | 9,555,948 | 5,626,476 | 1,297,162 | 865,165 | | |
| Yield Increased by | 0.5% | 7.74% | 8.24% | 9.73% | 9.42% | | |
| **OMV of Completed Scheme** | | **123,461,866** | **68,282,479** | **13,331,568** | **9,184,343** | **214,260,256** | **(14,174,389)** |
| | | | | | | | |
| Net Rental Income | EUR | 9,555,948 | 5,626,476 | 1,297,162 | 865,165 | | |
| Yield Increased by | 1.0% | 8.24% | 8.74% | 10.23% | 9.92% | | |
| **OMV of Completed Scheme** | | **115,970,247** | **64,376,159** | **12,679,976** | **8,721,422** | **201,747,805** | **(26,686,840)** |

In addition to that, other three major projects are presented to better illustrate the sensitivity to the yield movements. However, as those projects are currently under development, the sensitivity analysis is based on the future assumed final open market values.




| Project | | RYAZAN SHOPPING MALL | ECMall shoping center | 'Kartontara' | Total | Difference |
|---|---|---|---|---|---|---|
| Net Rental Income | EUR | 19,000,000 | 11,716,126 | 29,426,272 | | |
| Initial Yield as of 12/31/2008 | | 13.00% | 6.92% | 9.50% | | |
| **OMV of Completed Scheme** | | **146,153,846** | **169,308,186** | **309,750,236** | **625,212,269** | |
| | | | | | | |
| Net Rental Income | EUR | 19,000,000 | 11,716,126 | 29,426,272 | | |
| Yield Decreased by | –1.0% | 12.00% | 5.92% | 8.50% | | |
| **OMV of Completed Scheme** | | **158,333,333** | **197,907,542** | **346,191,440** | **702,432,316** | **77,220,047** |
| | | | | | | |
| Net Rental Income | EUR | 19,000,000 | 11,716,126 | 29,426,272 | | |
| Yield Decreased by | –0.5% | 12.50% | 6.42% | 9.00% | | |
| **OMV of Completed Scheme** | | **152,000,000** | **182,494,182** | **326,958,582** | **661,452,765** | **36,240,496** |
| | | | | | | |
| Net Rental Income | EUR | 19,000,000 | 11,716,126 | 29,426,272 | | |
| Yield Increased by | 0.5% | 13.50% | 7.42% | 10.00% | | |
| **OMV of Completed Scheme** | | **140,740,741** | **157,899,279** | **294,262,724** | **592,902,744** | **(32,309,525)** |
| | | | | | | |
| Net Rental Income | EUR | 19,000,000 | 11,716,126 | 29,426,272 | | |
| Yield Increased by | 1.0% | 14.00% | 7.92% | 10.50% | | |
| **OMV of Completed Scheme** | | **135,714,286** | **147,930,890** | **280,250,214** | **563,895,389** | **(61,316,879)** |

**b) 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 2008 and 31 December 2007**

| 2008 | | Total | Less than 1 year | 1–5 years | More than 5 years |
|---|---|---|---|---|---|
| BALANCE SHEET ITEMS | | | | | |
| Trade receivables | TEUR | 38 | 38 | – | – |
| | TUSD | 22 | 22 | – | – |
| | TRUR | 11,144 | 11,144 | – | – |
| | TCNY | 590 | 590 | – | – |
| Provided loans | TEUR | 1,535 | 856 | – | 679 |
| | | | | | |
| Trade payables | TEUR | (6,962) | (6,962) | – | – |
| | TUSD | (253) | (253) | – | – |
| | TRUR | (204,977) | (204,977) | – | – |
| | TCNY | (471,655) | (471,655) | – | – |
| Loans | TEUR | (146,875) | (10,609) | (21,387) | (114,879) |
| | TUSD | (88,409) | – | (88,409) | – |
| | TPLN | (18,600) | – | – | (18,600) |
| Bonds | TEUR | (86,015) | (4,726) | (81,289) | – |
| Finance lease Liabilities | TEUR | (10,806) | (48) | (357) | (10,401) |
| **Net position** | **TEUR** | **(249,085)** | **(21,451)** | **(103,033)** | **(124,601)** |
| | **TUSD** | **(88,640)** | **(231)** | **(88,409)** | **–** |
| | **TRUR** | **(193,833)** | **(193,833)** | **–** | **–** |
| | **TCNY** | **(471,065)** | **(471,065)** | **–** | **–** |
| | **TPLN** | **(18,600)** | **–** | **–** | **(18,600)** |

| 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) | – | – |
| 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) |
| | | | | | |
| **Net position** | **TEUR** | **(166,332)** | **(16,395)** | **(94,908)** | **(55,029)** |
| | **TUSD** | **(3,182)** | **(3,182)** | **–** | **–** |


| 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) | – | – |
| 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) |
| **Net position** | **TEUR** | **(166,332)** | **(16,395)** | **(94,908)** | **(55,029)** |
| | **TUSD** | **(3,182)** | **(3,182)** | **–** | **–** |




**Sensitivity Analysis – Exposure to currency risk**

A 10% strengthening (devaluation) of the Czech crown against the below currencies at 31 December 2008 would have decreased (increased) the profit and loss account by TEUR 14,789 (2007 – TEUR 20,021). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

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

| FX rate as at 12/31/2008 | | 10% | –10% |
|---|---|---|---|
| EUR | 26.930 | 29.623 | 24.237 |
| USD | 19.346 | 21.281 | 17.411 |
| RUR | 0.652 | 0.718 | 0.587 |
| CNY | 2.836 | 3.120 | 2.552 |
| PLN | 6.485 | 7.134 | 5.837 |

| Average FX rate for 12 months 2008 | | 10% | –10% |
|---|---|---|---|
| EUR | 24.942 | 27.436 | 22.448 |
| USD | 17.035 | 18.739 | 15.332 |
| RUR | 0.685 | 0.754 | 0.617 |
| CNY | 2.453 | 2.698 | 2.208 |
| PLN | 7.123 | 7.835 | 6.411 |

| 2008 | | Orig. currency | TCZK | TCZK +10% | Change | TCZK –10% | Change |
|---|---|---|---|---|---|---|---|
| **Balance sheet items** | | | | | | | |
| Trade receivables | TEUR | 38 | 1,023 | 1,126 | 103 | 920 | (103) |
| | TUSD | 22 | 426 | 468 | 42 | 384 | (42) |
| | TRUR | 11,144 | 7,270 | 7,997 | 727 | 6,543 | (727) |
| | TCNY | 590 | 1,673 | 1,841 | 168 | 1,505 | (168) |
| Provided loans | TEUR | 1,535 | 41,338 | 45,471 | 4,133 | 37,205 | (4,133) |
| Investment property | TEUR | 508,518 | 13,694,390 | 15,063,829 | 1,369,439 | 12,324,951 | (1,369,439) |
| | | | | | | | |
| Trade payables | TEUR | (6,962) | (187,487) | (206,235) | (18,748) | (168,739) | 18,748 |
| | TUSD | (253) | (4,895) | (5,384) | (489) | (4,406) | 489 |
| | TRUR | (204,977) | (133,713) | (147,084) | (13,371) | (120,342) | 13,371 |
| | TCNY | (471,655) | (1,337,614) | (1,471,375) | (133,761) | (1,203,853) | 133,761 |
| Loans | TEUR | (146,874) | (3,955,317) | (4,350,849) | (395,532) | (3,559,785) | 395,532 |
| | TUSD | (88,409) | (1,710,361) | (1,881,397) | (171,036) | (1,539,325) | 171,036 |
| | TPLN | (18,600) | (120,621) | (132,683) | (12,062) | (108,559) | 12,062 |
| Bonds | TEUR | (86,015) | (2,316,384) | (2,548,022) | (231,638) | (2,084,746) | 231,638 |
| Finance lease Liabilities | TEUR | (10,806) | (291,006) | (320,106) | (29,100) | (261,906) | 29,100 |
| | | | | | | | |
| **Total balance sheet items (Net exposure to currency risk)** | **TEUR** | **259,434** | **6,986,557** | **7,685,214** | **698,657** | **6,287,900** | **(698,657)** |
| | TUSD | (88,640) | (1,714,830) | (1,886,313) | (171,483) | (1,543,347) | 171,483 |
| | TRUR | (193,833) | (126,443) | (139,087) | (12,644) | (113,799) | 12,644 |
| | TCNY | (471,065) | (1,335,941) | (1,469,534) | (133,593) | (1,202,348) | 133,593 |
| | TPLN | (18,600) | (120,621) | (132,683) | (12,062) | (108,559) | 12,062 |
| | | | | TCZK | 368,875 | TCZK | (368,875) |
| | | | | **TEUR** | **14,789** | **TEUR** | **(14,789)** |

| FX rate as at 12/31/2007 | | 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. currency | 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 (Net exposure to currency risk)** | TEUR | 210,961 | 5,615,782 | 6,177,361 | 561,579 | 5,054,203 | (561,579) |
| | TUSD | (3,182) | (57,524) | (63,276) | (5,752) | (51,772) | 5,752 |
| | | | | TCZK | 555,827 | TCZK | (555,827) |
| | | | | **TEUR** | **20,021** | **TEUR** | **(20,021)** |

### c) Interest Rate Risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments are described under Notes 3.22 and 3.28, 3.29, 3.30 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 1,207 (2007 – TEUR 992) 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 2007.

| In EUR thousand | Average amounts | Average amounts | Average amounts |
|---|---|---|---|
| **2008** | **Effective interest rate** | **Total** | **Interest (calculated)** |
| Bank loans | 6.4% | (162,336) | (10,454) |
| Other bonds | 6.7% | (30,253) | (2,025) |
| Provided loans | 8.0% | 5,164 | 413 |
| **Total** | | **(187,425)** | **(12,066)** |

| 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** |
| 7.1% | (11,500) | (1,046) | 5.8% | (9,408) | 1,046 |
| 7.4% | (2,227) | (202) | 6.0% | (1,823) | 202 |
| 8.8% | 454 | 41 | 7.2% | 372 | (41) |
| | **(13,273)** | **(1,207)** | | **(10,859)** | **1,207** |

| In EUR thousand | Average amounts | Average amounts | 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 |

**Sensitivity analysis for fixed interest rate instruments**

The Group accounts 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 2008.

### 3.35.5. 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 flow 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 flow 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 flow.

| In EUR thousand | Contractual payments | Payable in less than year | Payable in 1–5 years | Payable after 5 years |
|---|---|---|---|---|
| Loans from third parties | (89,264) | (15,710) | (73,554) | – |
| Loans from third parties – BOHL MEZZANINE INVESTMENT S.A. | (1,486) | (1,486) | – | – |
| Bank loans | (189,655) | (23,209) | (30,077) | (136,369) |
| Loans from related parties | (2,004) | (2,004) | – | – |
| Operating leases – lessee | (47,288) | (5,837) | (21,117) | (20,334) |
| Operating leases – lessor | 85,675 | 13,968 | 43,826 | 27,881 |
| Finance leases | (27,352) | (828) | (3,428) | (23,096) |
| Bonds | (154,622) | (6,779) | (147,843) | – |
| **Total** | **(425,996)** | **(41,885)** | **(232,193)** | **(151,918)** |

**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 EUR thousand 2008 | Effective interest rate | Total | 6 months or less | 6–12 months | 1–5 years | Fixed interest rate |
|---|---|---|---|---|---|---|
| Loans from third parties | 12.0% | (80,667) | – | – | – | (80,667) |
| Loans from third parties – BOHL MEZZANINE INVESTMENT S.A. | 6.0% | (1,402) | – | – | – | (1,402) |
| Loans from related parties | 15.0% | (1,749) | – | – | – | (1,749) |
| Bank loans | 6.2% | (178,423) | (178,423) | – | – | – |
| Convertible bonds | 11.0% | (86,015) | – | – | – | (86,015) |
| Other bonds | 6.9% | (30,167) | (30,167) | – | – | – |
| **Total** | | **(378,423)** | **(208,590)** | **–** | **–** | **(169,833)** |





| In EUR thousand 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)** |

**Derivatives**

| Type of derivative | Nominal value | | Positive fair value | | Negative fair value | |
|---|---|---|---|---|---|---|
| **In EUR thousand** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Foreign currency forward | 70,662 | 45,500 | 201 | 2,959 | (1,987) | – |
| Non-delivery forward | 30,888 | – | – | – | (2,748) | – |
| Foreign currency swap | 44,387 | 62,634 | – | 1,689 | (4,256) | (486) |
| Interest rate swap | 1,087,577 | 1,327,559 | – | 494 | (4,318) | (747) |
| Embedded derivative | 14,178 | 14,178 | – | – | (10,458) | (5,521) |
| **Total** | **1,247,692** | **1,449,871** | **201** | **5,142** | **(23,767)** | **(6,754)** |

| | | Maturity 2008 | | | | |
|---|---|---|---|---|---|---|
| **Type of derivative In EUR thousand** | **Carrying value** | **6 months or less** | **6–12 months** | **1–2 years** | **2–5 years** | **more than 5 years** |
| Foreign currency forward | 68,876 | 54,304 | 14,572 | – | – | – |
| Foreign currency forward | (70,662) | (55,662) | (15,000) | – | – | – |
| Settled on gross basis | (1,786) | (1,358) | (428) | – | – | – |
| Non-delivery forward | (2,748) | (2,748) | – | – | – | – |
| Foreign currency swap | (4,256) | (4,212) | (44) | – | – | – |
| Interest rate swap | (4,318) | (295) | (689) | (1,528) | (1,797) | – |
| Embedded derivative | (10,458) | – | – | – | (10,458) | – |
| **Settled on net basis** | **(21,780)** | **(7,255)** | **(742)** | **(1,528)** | **(12,255)** | **–** |
| **Total** | **(23,566)** | **(8,613)** | **(1,170)** | **(1,528)** | **(12,255)** | **–** |

| | | Maturity 2007 | | | | |
|---|---|---|---|---|---|---|
| **Type of derivative In EUR thousand** | **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)** |

### 3.36. Contingencies

The Group identified the following contingencies as at 31 December 2008:

— ECM Finance a.s. pledged its stake in CITY TOWER, s.r.o. and CITY PARKVIEW s.r.o. as a guarantee to the bank for a group company to secure the obtained loan. The guarantee totals TEUR 77,785.

— 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, fixed assets, shares, receivables from bank accounts, service charge account and claims arising from lease agreements, existing and future claims arising from the insurance agreement, stake in EMPIRIA BUILDING s.r.o. as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 58,100.

— EPOQUE-LANCASTER a.s. pledged its fixed assets, receivables from its bank account and shares as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,600.

— EPOQUE HOTEL a.s. pledged its fixed assets, receivables from its bank account and shares as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,600.

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

— NATIONAL BUSINESS CENTRE Ostrava a.s. pledged its receivables from bank accounts as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,970.

— 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 6,750.

— 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, shares and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 9,097.

— REZIDENCE UNHOŠŤ a.s. pledged its receivables, shares and fixed assets as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 16,940.

— LUNZIE a.s. pledged fixed assets, shares 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 3,342.

— CITY PARKVIEW s.r.o. pledged its fixed assets and receivables from its bank account and future receivables from loan contract as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 2,785.

— ECM Facility a.s. pledged technology Energo, guarantee declaration, receivables from bank accounts and stake in OPTISERVIS,spol. s r.o. as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 7,092.

— Tabula Maior pledged its fixed assets, receivables and shares as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 5,292.

— ECM POZNAŇ REZIDENCE Sp. z o.o. pledged its fixed assets and receivables as a guarantee to the bank for a group company to secure a loan in the amount of TEUR 4,816.

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

### 3.37. Related parties

### 3.37.1. 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 include the Chairman of the Board of Directors, Finance Director, and Chief Project Manager. The accrued remuneration of the key management personnel is as follows:

| In EUR thousand | 2008 | 2007 |
|---|---|---|
| Remuneration and benefits paid to key management | 2,570 | 2,100 |
| **Total** | **2,570** | **2,100** |

### 3.37.2. Transactions with related parties

The Group identified the following transactions with related parties in 2008 and 2007:

| In EUR thousand | | 2008 | 2007 |
|---|---|---|---|
| Mr. Milan Janků | Loans provided to the Group | – | 4 |
| | Loans granted by the Group | 9 | 112 |
| | Payables to the Group | 365 | 4,597 |
| | Receivables from the Group | 67 | 61 |
| ECM Group NV | Loans granted by the Group | 856 | – |
| | Receivables from the Group | 18 | |
| | Interest Income | 1 | – |
| ECM Group Asset Management, a.s. | Payables to the Group | 888 | 1 |
| | Purchases from the Group | 866 | – |
| Domus Eventis Management s.r.o. | Loans granted by the Group | – | 23 |
| | Payables to the Group | 57 | 1 |
| | Purchases from the Group | 153 | – |
| | Services provided to the Group | 23 | – |
| Nonet s.r.o. | Loans granted by the Group | – | 30 |
| | Payables to the Group | 52 | 29 |
| | Receivables from the Group | 9 | – |
| | Services provided to the Group | 1 | – |
| | Purchases from the Group | 16 | – |
| Longin Business Center a.s. | Loans provided to the Group | – | 1,267 |
| | Loans granted by the Group | – | 45 |
| | Receivables from the Group | – | – |
| | Payables to the Group | 83 | 24 |
| | Services provided to the Group | 1 | 720 |
| | Purchases from the Group | 1 | – |

| In EUR thousand | | 2008 | 2007 |
|---|---|---|---|
| EUROPA Capital Management, a.s. | Payables | 75 | – |
| | Receivables | 251 | – |
| | Services provided to the Group | 27 | – |
| ECM Real Estate Development Prague, s.r.o. | Loans provided to the Group | 3,875 | – |
| | Loans granted by the Group | 38 | – |
| | Receivables from the Group | 88 | – |
| | Payables to the Group | 11 | – |
| | Purchases from the Group | 25 | – |
| PSJ, a.s. | Receivables from the Group | 2,890 | – |
| | Advances to the Group | 58 | – |
| | Services provided to the Group | 1,121 | – |
| | Purchases from the Group | 106 | – |
| Nova Liboc, a.s. | Loans granted by the Group | 2 | – |
| | Receivables from the Group | 34 | – |
| | Payables to the Group | 9 | – |

## 3.38. Subsequent events

### 3.38.1. Decrease in ownership interests in Chinese projects

In January 2009 ECM has agreed with Nordevo Investments Limited, a project partner in China, on the sale of a 23% stake in China East Investment Limited and Metropolis Holding China Limited for a total consideration of US$ 11.5 million. China East Investment Limited and Metropolis Holding China Limited are companies that own, respectively, the Beijing-based ECMall and Metropolis Tower Projects through their wholly-owned subsidiaries.

Nordevo has been granted an option ("Put option") to require ECM to purchase 12.9% of the issued share capital and the related shareholders' loans of the HK Holding Companies for a consideration of US$ 6.45 million plus the value of any new pro-rata shareholders' loan, together with the cost of financing accruing at the rate of 20% per annum for a period of nine to twelve months after completion of the transaction. ECM has been granted an option ("Call option") to require Nordevo to sell 12.9% of the issued share capital and the related shareholders' loans of the HK Holding Companies on similar terms, at any time after completion of the transaction, for a period of 12 months.

In January 2009 the RMB 700 million 5-year loan agreement has been signed with DBS Bank (China) Ltd., Beijing Branch and HSBC Bank (China) Co., for the senior financing of its ECMall building in Beijing, China. The loan will cover all financing requirements in relation to the ECMall through to completion. The loan will have a grace period of 24 months and will bear an effective interest rate (on the basis of PBOC), currently at approximately 8% per annum.

### 3.38.2. Real Estate Holding

The ultimate owner of ECM Group, N.V., Mr. Milan Janků and PPF Group are currently in negotiations regarding the creation of a real estate holding. The creation of the new real estate holding company will not have any impact on the management and control of ECM, which will still to be controlled by Mr. Milan Janků, through his majority stake in ECM Group N.V.
This potential transaction will have no impact on the public listing of the Company and ECM Group N.V. is not planning to withdraw the Company's shares from the Prague Stock Exchange. The Company will continue to duly fulfill its obligations resulting from the public listing of its shares and will assure maximum transparency towards its minority shareholders.

ECM REAL ESTATE INVESTMENTS A.G.
9, Rue du Laboratorie, L–1911 Luxembourg
RSC Luxembourg: B–65.153

**Mailing address**
ECM Real Estate Investments k.s.
CITY TOWER building
Hvězdova 1716/2b
140 78, Prague 4 – Nusle
Phone: +420 222 752 010
Fax: +420 222 751 399
E-mail: inforeal@ecm.cz
www.ecm.cz

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