

HRT Révision S.à.r.l

RSM SALUSTRO REYDEL

REPORT  
OF THE STATUTORY AUDITORS ON THE CONSOLIDATED  
ACCOUNTS

**ORCO PROPERTY GROUP**

*8 boulevard Emmanuel Servais  
L 2535 Luxembourg*

YEAR ENDED DECEMBER 31, 2003

**HRT Révision S.à r.l.**

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FRANCE

REPORT  
OF THE STATUTORY AUDITORS ON THE CONSOLIDATED  
ACCOUNTS

YEAR ENDED DECEMBER 31, 2003

In accordance with our appointment by your Shareholders' General Meeting, we have audited the accompanying consolidated accounts of ORCO PROPERTY GROUP for the year ended 31 December 2003.

The Board of Directors is responsible for the preparation of the consolidated accounts. Our role is to express an opinion on these consolidated accounts based on our audit.

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these accounts. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation of the accounts. We believe that our audit provides a reasonable basis for our opinion.

**AUDIT OPINION OF HRT Révision S. à r.l.**

During the course of our audit, we have noted the booking, on the basis of engagement letters signed in December 2003, of a profit of 3,5 millions Euro on the creation of a joint venture for the realisation of the KOSIC project and the sale of a company holding the building n°2 of the Americka Park. Due to the complexity of these operations, their legal realisation was only finalized during the first quarter of 2004. At the date of our report, the operations were completely achieved and the proceeds received in agreement with the maturity dates provided by the contracts.

We are of the opinion that in accordance with the principle of the priority of substance over form, even if the legal realization of these transactions was only finalized during the first quarter of 2004, the decision of the Board of Directors to include the profit in the 2003 profit and loss account is adequate.

At the date of our report, the analysis of the conversion difference included in the statement of changes in equity accounts does not permit to verify the correct allocation between the profit and loss account and the reserves of a loss on conversion of 485.000 Euro, currently considered as being a part of the reserves.

In our opinion, the enclosed consolidated accounts give a true and faire view of the consolidated assets and liabilities and of the consolidated financial position of ORCO PROPERTY GROUP S.A. as at December 31, 2003 and, subject to the eventual effect of the preceding remark, of the consolidated results for the year then ended.

Without to question the above opinion, we draw your attention on the following items:

- notes 2c)iii (deferred taxes) and 11 to the consolidated accounts, on respectively, the recognition of deferred tax assets and the Opera Business Centre litigation and on the uncertainties of the estimates linked to these elements;
- the change in the accounting method described in note 2a) to the consolidated accounts.

#### **OPINION OF RSM SALUSTRO REYDEL**

During our audit, we noted the following matters which lead us to express an adverse opinion on the accounts:

- the formation of a joint venture relating to the Kosic project was accounted for in December 2003 on the basis of a memorandum of understanding which involved no binding commitment, but gave rise to a 2.2 million EUR credit to the consolidated net profit. The definitive transaction, in the form of a contract for the sale of the shares, took place only in February 2004.

- the sale of a company holding Building n°2 of Americcka Park was accounted for in December 2003 based on a simple letter of intention, but giving rise to a 1.3 million EUR credit to the consolidated net profit. The definitive transaction, in the form of a contract for the sale of the shares, took place only in February 2004.

The overall effect of these transactions is to overstate by 3.5 million EUR both the net profit for 2003 and the net assets at December 31, 2003.

- The analysis of the foreign currency translation differences included in the statement of changes in shareholders' equity does not enable us at present to verify their correct allocation as between the profit and loss account and reserves.

In view of the above matters, in our opinion the consolidated accounts do not, in the light of French regulations and accounting principles, give a true and fair view of the results of

the group's operations for the year or of its financial position and assets at the end of the year.

Without calling into question the above opinion, we draw your attention to the following:

- notes 2c)iii (deferred tax) and 11 to the consolidated accounts, relating to the recognition of deferred tax assets and the Opera Business Center litigation respectively, and the uncertainties affecting the estimates of these items;
- the change in accounting method described in note 2a) to the consolidated accounts.

Luxembourg and Paris, April 22, 2004

The Statutory Auditors

HRT Révision S.à r.l.

RSM SALUSTRO REYDEL

Dominique RANSQUIN

François BERNARD

Orco Property Group  
**CONSOLIDATED BALANCE SHEET**  
31 December 2003  
(Denominated in thousand Euros)

<b>ASSETS</b>	<b>31 December 2003</b>	<b>31 December 2002</b>	<b>Proforma 31-déc 2002</b>	<b>31 December 2003</b>	<b>31 December 2002</b>	<b>Proforma 31-déc 2002</b>
<b>FIXED ASSETS</b>						
Intangible assets	1 628	1 924	1 924	16 470	11 844	11 844
Tangible assets	108 650	85 162	82 301	32 335	17 997	17 997
Financial assets	138	56	56	307	45	45
Non-consolidated investments	0	1 687	1 687	256	140	140
Loans to affiliates	138	1 743	1 743	6 078	2 398	2 398
	-	-	-	-2 729	-273	-3 172
	-	-	-	252	2 520	2 558
	-	-	-	-1 201	-	-
	-	-	-	-622	-	-
	<b>110 416</b>	<b>88 829</b>	<b>85 968</b>	<b>51 146</b>	<b>34 671</b>	<b>31 810</b>
				7 579	437	437
<b>CURRENT ASSETS</b>						
Inventories	42 795	3 518	3 518	12 735	2 812	2 812
Trade debtors	21 937	1 304	1 304	70 633	11 225	11 225
Tax	8 102	3 383	3 383	193	126	126
Other debtors	8 621	3 787	3 787	0	16	16
	<b>81 455</b>	<b>11 992</b>	<b>11 992</b>	<b>10 811</b>	<b>4 116</b>	<b>4 116</b>
<b>TREASURY</b>						
Marketable securities	391	4 962	4 962	52 888	969	969
Cash	16 160	3 304	3 304	1 944	3 202	3 202
	16 551	8 266	8 266	3 457	2 599	2 599
	-	-	-	156 484	74 794	74 794
<b>PREPAYMENTS</b>						
	6 833	966	966	46	151	151
<b>TOTAL ASSETS</b>						
	<b>215 255</b>	<b>110 053</b>	<b>107 192</b>	<b>215 255</b>	<b>110 053</b>	<b>107 192</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>SHAREHOLDER'S FUND</b>						
Subscribed share capital	11 844	11 844	11 844	11 844	11 844	11 844
Share premium account	17 997	17 997	17 997	17 997	17 997	17 997
Legal reserve	45	45	45	45	45	45
Non-distributable reserve	140	140	140	140	140	140
Consolidated reserve	2 398	2 398	2 398	2 398	2 398	2 398
Translation difference	-3 172	-	-	-2 729	-	-
Profit for the year	2 558	-	-	252	2 520	2 558
Minorities interest	-	-	-	-1 201	-	-
Minorities reserves	-	-	-	-622	-	-
	<b>51 146</b>	<b>34 671</b>	<b>31 810</b>	<b>51 146</b>	<b>34 671</b>	<b>31 810</b>
				7 579	437	437
<b>PROVISIONS FOR RISKS AND CHARGES</b>						
<b>LIABILITIES</b>						
Convertible bonds	2 812	2 812	2 812	2 812	2 812	2 812
Non-convertible bonds	11 225	11 225	11 225	11 225	11 225	11 225
Borrowings and overdrafts	49 729	49 729	49 729	49 729	49 729	49 729
Interests payable	126	126	126	126	126	126
Creditors on assets	16	16	16	16	16	16
Trade creditors	4 116	4 116	4 116	4 116	4 116	4 116
Customers prepayments	969	969	969	969	969	969
Tax liabilities	3 202	3 202	3 202	3 457	3 202	3 202
Amounts due to shareholders	2 599	2 599	2 599	3 823	2 599	2 599
Other creditors	74 794	74 794	74 794	156 484	74 794	74 794
<b>ACCURALS AND DEFERRED INCOME</b>						
	151	151	151	46	151	151
<b>TOTAL LIABILITIES</b>						
	<b>215 255</b>	<b>110 053</b>	<b>107 192</b>	<b>215 255</b>	<b>110 053</b>	<b>107 192</b>

Orco Property Group  
**CONSOLIDATED PROFITS AND LOSS ACCOUNT**  
31 December 2003  
(Denominated in thousand Euros)

	<b>2003</b>	<b>2002</b>	<b>Proforma Dec. 31, 2002</b>
<b>Sales</b>	<b>22 780</b>	<b>10 059</b>	<b>10 059</b>
Offices	2 091	3 330	3 330
Residential	1 446	1 474	1 474
Aparthotels	1 296	1 467	1 467
Hotel	4 954	3 665	3 665
Other services	427	123	123
Yield from the sale of buildings in stock	12 565	0	0
<b>Capitalized production costs</b>	<b>1 068</b>	<b>1 360</b>	<b>1 360</b>
<b>Other operating income and transfer of charges</b>	<b>3 026</b>	<b>3 855</b>	<b>3 855</b>
Gain on fixed assets disposal	2 455	3 338	3 338
Reversal of operating provisions	248	471	471
Other operating income	322	46	46
<b>Cost of sales</b>		<b>0</b>	<b>0</b>
<b>Purchases and outside services</b>	<b>- 7 297</b>	<b>-5 207</b>	<b>-5 207</b>
Offices	-646	-931	-931
Residential	-437	-346	-346
Promotion	-171		
Aparthotels	-544	-414	-414
Hotel	-2485	-1 866	-1 866
General charges on prospection	-1 367	-633	-633
Operating general charges	-1 647	-1 017	-1 017
<b>Payroll costs</b>	<b>- 4 059</b>	<b>-3 360</b>	<b>-3 360</b>
Offices	-2	-4	-4
Residential	0	0	0
Promotion	-23		
Aparthotels	-188	-135	-135
Hotel	-1 751	-1 390	-1 390
General charges on prospection	-1 119	-1 048	-1 048
Operating general charges	-976	-783	-783
<b>Other operating charges</b>	<b>- 482</b>	<b>-1 231</b>	<b>-1 234</b>
Taxes	-184	-238	-238
Other operating charges	-298	-993	-993
<b>Amortization, depreciation and provisions</b>	<b>- 2 8 93</b>	<b>-2 380</b>	<b>-2 380</b>
<b>Operating profit</b>	<b>3 196</b>	<b>3 096</b>	<b>3 096</b>
Financial income	675	273	273
Change profit	288	-14	24
Financial charges	-6 638	-3 184	-3 184
<b>Net Financial profit</b>	<b>-5 675</b>	<b>-2 925</b>	<b>-2 887</b>
<b>Profit on ordinary activities before tax</b>	<b>-2 479</b>	<b>171</b>	<b>209</b>
<b>Exceptional charges</b>	<b>172</b>	<b>1 097</b>	<b>1 097</b>
Corporation tax	1 358	1 252	1 252
<b>Consolidated profit after tax</b>	<b>-949</b>	<b>2 520</b>	<b>2 558</b>
Discount on NAV upon purchase of company		0	0
<b>Net profit</b>	<b>-949</b>	<b>2 520</b>	<b>2 558</b>
Minority interests	1 201	0	0
<b>PROFIT FOR THE PERIOD</b>	<b>252</b>	<b>2 520</b>	<b>2558</b>
<b>Earning per share (in EUR)</b>		<b>0,9</b>	<b>0,91</b>
<b>Diluted earning per share (in EUR)</b>		<b>0,86</b>	<b>0,86</b>

Orco Property Group  
**CONSOLIDATED CASH FLOW STATEMENT**  
 Period ended 31<sup>st</sup> December 2003  
 (Denominated in thousands of Euros)

	<b>December 2003</b>	<b>December 2 002</b>	<b>December 2001</b>
<b>Cash flow from operations</b>			
Operating profit of consolidated companies	3 196	3 096	-304
Elimination of operating charges and income with no cash flow effect:			
- Amortization, depreciation	2 893	2 380	1 602
- Gain on disposal	-2 455	-43	-2
- Gain/(loss) on operating provisions	-248	-347	-26
Gross operating cash flow	<b>3 386</b>	<b>5 086</b>	<b>1 270</b>
Change in working capital requirements	11 094	-7 703	860
Net cash flow generated by operating activities	<b>14 480</b>	<b>-2 616</b>	<b>2 130</b>
Other income and expenses:			
- Interest expense	-6 146	-2 957	-1 772
- Financial income	321	273	965
- Corporation tax	-625	-582	-45
- Exceptional charges and income	-31	1 252	31
Net cash flow generated by the business	<b>7 999</b>	<b>-4 630</b>	<b>1 309</b>
<b>Cash flow from investing transactions</b>			
Acquisition of fixed assets	-28 851	-15 805	-16 139
Impact of changes in consolidation structure	4 816	0	-17 531
Net cash flow from investing transactions	<b>-24 035</b>	<b>-15 805</b>	<b>-33 670</b>
<b>Cash flow from financing operations</b>			
Issue of share capital	18 964	3 333	10 063
Net debt issues	21 131	8 269	14 427
Net cash flow from financing operations	<b>38 908</b>	<b>11 602</b>	<b>24 490</b>
<b>Change in cash position</b>	<b>22 872</b>	<b>-8 833</b>	<b>-7 871</b>
Opening cash position	-6 577	2 256	10 127
Closing cash position	16 295	-6 577	2 256
<i>Closing cash position ended December 31 :</i>	16 295	-6 577	2 256
- Net liquid assets from overdrafts	16 160	-6 610	2 165
- Marketable securities except own shares	135	33	91

## NOTE 1 - GENERAL

- Orco Property Group S.A. (the Company) was incorporated on September 9, 1993, in the form of a limited company for an unlimited term.
- The company's business mainly focuses on the one hand on management of property companies based in the Czech Republic, Hungary and Poland and on the other hand on residential buildings promotion in the Czech Republic. The group diversified further with hotel activities and hotel residences.
- All amounts are expressed in thousands Euros (K€) except for information about shares in issue and exchange rates.

## NOTE 2 - CONSOLIDATION BASIS AND PRINCIPLES

### a) Change in method

The Czech, Polish and Hungarian subsidiaries of the group are now considered as having the euro as operating currency. This change in method enables a more faithful image of the group's accounts, thus better accounting for the absence of exchange risk on its net assets:

- The main liabilities (bank loans) are expressed in euros
- According to a DTZ attestation, a real-estate company hired by the group to institute its assets valuation, dated 29<sup>th</sup> September 2003, there is no exchange risk on the group's main assets (buildings), as the buildings price in euros, on the concerned markets, is not affected by the exchange rates movements between euro and local currency.

Therefore, the conversion of these businesses accounts is operated according to the historical rate method, that is:

- Non-monetary elements, including own capital, are converted at their historical rate, i.e. at the exchange rate on the date of entry of these elements in the consolidated assets and liabilities;
- Monetary elements are converted at the exchange rate on the financial year closing date;
- Income and charges are converted at the average rate over the period.

However, the depreciations recorded by amortization or deposit on assets elements converted at historical rate are themselves converted at historical rate.

- Conversion differentials resulting from the application of this method, both on monetary elements that appear in the balance sheet and on profit and loss accounts elements, are included in the consolidated profit and loss accounts under "Financial charges and income".

The impact of this change has been accounted for in the reserves for a tax net amount of 5 304 K€  
Mainly it corresponds to the fact that:

- Latent exchange differentials on loans in euros, previously accounted for in local accounts profit, are no longer recorded in the consolidated profit.
- Assets were reduced to their historical exchange rate



**b) Consolidation basis**

The group's consolidated financial statements include the accounts of the following subsidiaries:

Company	Country	Currency	% shareholding	
			31 December 2003	31 December 2002
Orco Budapest SA	Hungary	HUF	100%	100%
Americka 17 SARL (formerly Orco SARL)	Czech Republic	CZK	100%	100%
Rybalkova 12 SARL	Czech Republic	CZK	100%	100%
Americka 33 SA	Czech Republic	CZK	100%	100%
Americka 1 SA	Czech Republic	CZK	100%	100%
Machova-Orco SA	Czech Republic	CZK	100%	100%
Americka-Orco SA	Czech Republic	CZK	100%	100%
Orco-Property SA	Czech Republic	CZK	50%	50%
Zahrebska 35 SARL (formerly Lacsem SARL)	Czech Republic	CZK	100%	100%
Anglicka 26 SARL	Czech Republic	CZK	100%	100%
Belgicka – Na kozacce SARL (formerly CIP I SARL)	Czech Republic	CZK	100%	100%
Londynska 41 (formerly CIP II SARL)	Czech Republic	CZK	100%	100%
Orco Asset Management SA	Czech Republic	CZK	100%	100%
Nad Petruskou (formerly CIP III SARL)	Czech Republic	CZK	100%	100%
Orco Prague SA	Czech Republic	CZK	100%	100%
Londynska 26 SA	Czech Republic	CZK	100%	100%
Orco Vinohrady SA	Czech Republic	CZK	100%	100%
Manesova 28 SA	Czech Republic	CZK	100%	100%
Orco Revay Rt	Hungary	HUF	100%	100%
Orco Vagyonkeselo SARL	Hungary	HUF	100%	100%
Orco Project Organization SA (Project I)	Hungary	HUF	100%	100%
Vinohrady (formerly Orco Paris SARL)	France	EUR	100%	100%
Orco Warsaw SARL	Poland	PLN	76,50%	100%
Orco Hotel Group S.A.	Luxembourg	EUR	76,50 %	76,50 %
OrcoAparthotel SA.	Luxembourg	EUR	70,92 %	
MaMaison Residences SA	Luxembourg	EUR	70,92%	
Orco Hotel Rt Budapest SA	Hungary	HUF	76,50 %	76,50 %
Résidence Mazaryk SA (formerly Orco Budget Hotel SA)	Czech Republic	CZK	70,92%	76,50 %
Résidence Izabella SA (formerly Orco Project II SA)	Hungary	HUF	70,92%	76,50 %
Orco Property Start SA	Czech Republic	CZK	76,50 %	76,50 %
Résidence Belgicka SA (RIM Development SA)	Czech Republic	CZK	70,92 %	76,50 %
Pachtuv Palac, sro (formerly Telas SARL)	Czech Republic	CZK	70,92%	76,50 %
Orco Hotel Management	Czech Republic	CZK	76,50 %	76,50 %

ORCO Hotel Development SA	Czech Republic	CZK	76,50 %	76,50 %
Janackovo nabrezi 15 SARL	Czech Republic	CZK	76,50 %	76,50 %
Orco Hotel Project SA	Czech Republic	CZK	76,50 %	76,50 %
Orco Bratislava	Slovakia	SLK	70,92 %	100 %
Orco Hotel Management Hongrie	Hungary	HUF	76,50 %	76,50 %
Orco Hotel Collection	Luxembourg	EUR	50%	
Americka Park	Czech Republic	CZK	70,92%	
IPB Real as	Czech Republic	CZK	100%	
IPB Real sro	Czech Republic	CZK	100%	
IPB Real Development	Czech Republic	CZK	100%	
Centrum Agibor	Czech Republic	CZK	100%	
1. Sportovni as	Czech Republic	CZK	100%	
IPB Real Reality as	Czech Republic	CZK	100%	
Jihovychodni Mesto as	Czech Republic	CZK	100%	

The core business of the consolidated companies is to manage property investments, to manage financial investments, or provide services in the real-estate field.

The financial year of all the companies included in the consolidation ends on 31<sup>st</sup> December.

All companies, included in the consolidation are controlled solely by the parent company and therefore fully consolidated except for Orco Property AS. This company that deals with the office part of Luxembourg Plaza, was subject of a transfer. In the same way, based on the signature of a letter of intent in December 2003 with the GE Group, the accounts on 31<sup>st</sup> December 2003 take into account the economical transfer of 50% of Orco Hotel Collection SA (renamed in Kosic Sàrl in 2004); the legal documentation and the effective transfer of shares having been finalised during the first quarter 2004.

MaMaison Residences SA also enters the scope of consolidation; it is a Luxemburgish daughter company of Orco Hotel Group SA regrouping all hotel residences of the group. Orco Aparthotel also enters the scope; it results from the split of Orco Hotel Group SA in two new companies: Orco Aparthotel SA and Orco Hotel Group SA.

Lastly, Americka Park was created in the year 2003 in order to hold the new hotel residence; it is a daughter company of MaMaison Residences SA.

During 2003, the group acquired the first Czech real estate promoter in the middle-range residential market, IPB Real. This acquisition opens the scope of consolidation to the following companies: IPB Real as, IPB Real sro, IPB Real Development, Centrum Agibor, 1. Sportovni as, IPB Real Reality as and Jihovychodni Mesto as.

The total price for this acquisition is 13 179 KEUR.

The negative goodwill was 367 KEUR and was accounted for in consolidated reserves.

The acquisition of the IPB group affected the accounts on 31<sup>st</sup> December 2003, it is not necessary to present pro forma accounts.

The following subsidiaries, without activity or significant nature within the group, as at December 31, 2003, are not consolidated:

	% Shareholding		
	2003	2002	2001
Orco Bucharest	96 %	96 %	96%
Orco Zagreb SARL	100%	100 %	100%
Orco Hotel Development Poland	100%	100%	
Orco Hotel Management Poland	100%	100%	
Endurance Management Company	50%		

**c) Consolidation principles**

The significant consolidation principles used to establish the consolidation financial statements can be summarized as follows:

(i) *Conversion of foreign subsidiaries' accounts*  
cf a) change in method

(ii) *Deferred taxes*

Deferred taxes assets and liabilities are recorded to take account of temporary differences between the accounting recognition of certain expenses and income, due to restatements in order to comply with the applicable accounting rules and their inclusion in taxable income. Long term deferred tax basis lead to the accounting for a deferred tax, except when the update reduces it to an insignificant amount. Net deferred tax assets are recognised on the balance sheet if the Company is reasonably certain of their recoverability. Deferred tax is accounted for using the liability method.

(iii) *Acquisition goodwill*

Entries in the scope of consolidation basis are registered to their true value. The difference between the value upon entry in the consolidated balance sheet and the accounting value of the same element in the balance sheet of the company under control represents goodwill on evaluation. The difference between the acquisition cost of shares and the total evaluation of assets and liabilities identified on acquisition date represents goodwill on acquisition.

This goodwill is mainly allocated to buildings, based on property valuations. So far, there is no residual goodwill in the consolidated financial statements

No liabilities deferred tax has been recognised on evaluation goodwill. Indeed, all real-estate assets are born by a specific subsidiary held by Orco Property Group or Orco Hotel Group, which have the Soparfi status. Consequently, increases in value realized on the transfer or on the clearance sale of interests are exonerated from all tax as long as the Soparfi holds a minimum of 10% of the subsidiary's capital or if its purchase price was at least 6 million EUR. Besides, the subsidiary must be a resident company fully taxable on an equivalent to the corporate income tax (min. 15%), or an EU company aimed at by the Directive of CEE Council dated July 1990. Transferred interest shares must have been the Soparfi's undisrupted ownership for a 12-month period and if not the Soparfi must commit to hold for at least 12 months a minimum of 10% of the share's capital.

(iv) *Clearance of intercompany accounts*

All intercompany accounts and intercompany transactions are eliminated.

*(v) Leasing contracts*

The only long-term rental agreement is operational and therefore is not retreated (see note 20). Since 1.1.2002, one of the CR subsidiaries (ORCO Prague SA) has entered into financial leasing agreement for purchase of new hardware for its CR sister companies. Leasing agreement is on three years period, and includes equal instalments. Total value of equipment purchased is 78 K€ Leasing booking has been retreated at consolidated level.

*(vi) Minority interests*

Minority interests are calculated on the basis of their share in share capital.

*(vii) Capital increase cost*

Flotation costs of Orco Property Group were registered in establishing costs for 1.148 K€ in accounts for year 2000 and are spread over 4 years.

Capital increase costs, net of tax, are deducted from share premium account for 511 K€ as capital increases of 2001 (385 K€), 2002 (126 K€) and 2003 (631K€), in accordance with advice of the “Comité d’Urgence” no. 2000-D from December 21<sup>st</sup>, 2000.

### **NOTE 3 - MAIN ACCOUNTING POLICIES AND METHODS**

#### **General principles**

The consolidated financial statements of Orco Property Group S.A. and its subsidiaries are based on the accruals concept, the historical cost principle and generally accepted accounting principles.

The consolidated accounts have been established according to the new methodology approved by the ‘Comité de la Réglementation Comptable’ in April 1999 (n° 99-02 dated April 29<sup>th</sup> 1999).

#### **Conversion of foreign currencies**

Assets and liabilities of Czech, Hungarian and Polish subsidiaries denominated in currencies other than the reporting currency of the subsidiary are converted into the currency of these subsidiaries at the closing rates published by the Central Banks of these countries. Resulting conversion differentials are recorded as profit in the annual accounts and discounted in the consolidated accounts, as per the change in method exposed in note 2 a).

#### **Intangible assets**

Intangible assets are recorded at acquisition price or cost less amortization. Amortization is calculated on a straight-line basis over the following period (based on estimated useful life):

Set-up costs	4 years
Software	4 years

A provision is made when the book value at the period end is higher than the audited value. On 31<sup>st</sup> December 2003 no such provision was necessary.

#### **Tangible fixed assets**

The tangible fixed assets of the Company and its subsidiaries are recorded at purchase price plus incidental expenses and, for buildings, renovation costs. Borrowing costs incurred during building renovations, i.e. between purchase and completion, are included in the acquisition cost.

They mainly include buildings held by the Group and given or intended to be rented.

Tangible fixed assets are depreciated on a straight line basis over the following periods:

Buildings	45 years
Plant and machinery	4 - 15 years
Office equipment and IT hardware	3 - 4 years

A provision is made when the book value at the period end is higher than the market value. On 31<sup>st</sup> December 2003 no such provision was necessary.

### **Financial assets**

Financial assets are recorded at the lower of cost and estimated market value. A provision is made when the book value at the period end is higher than the market value of the investment, as far as real-estate investments are concerned, the market value of latent and potential increases in value on begun real estate projects is especially taken into account in the calculation.

### **Inventories**

Inventories include buildings held and intended to be sold. They are recorded at their purchase costs plus incidental expenses and renovation costs. Borrowing costs incurred during building renovations, i.e. between purchase and completion, are included in the acquisition cost.

A provision is made when the book value at the period end is higher than the market value. On 31<sup>st</sup> December 2003 no such provision was necessary.

### **Debtors**

Current asset debtors are recorded at nominal value. They are written down when their estimated realisable value is less than their nominal value.

### **Earnings per share (EPS)**

Earnings per share are calculated by dividing net profit attributable to ordinary shares by the weighted average number of shares in issue each year.

To calculate diluted EPS, the number of shares in issue is adjusted to reflect the maximum impact which would result from the conversion of financial instruments which will dilute the number of ordinary shares, less own shares in possession at the closing date (convertible bonds – see note 11; share options - see note 19).

### **Pension liabilities**

No pension provision has been recorded since the Hungarian and Czech social security systems do not impose pension obligations on companies.

### **Market risks (interest rate, shares)**

ORCO PROPERTY GROUP is not particularly active on the markets, and especially not in the field of new financial instruments.

The exchange rate risk only exists in relation to a possible appreciation of the local currency (CZK,

HUF and PLN) against Euro. That risk is not hedged.

On 31<sup>st</sup> December 2003 fixed rate debts represent 44,71% of the total debt and floating rate debts 55,29%.

#### NOTE 4 – INTANGIBLE ASSETS

In K€	Start up costs	Software	Usable rights and other intangible assets	Total
<u>Acquisition values</u>				
Start of the period	1 303	182	1 654	3 139
Movement during the year:				
- Acquisitions	2	294		296
- Disposals	-10			-10
- Change in consolidation structure			-371	-371
- Reclassification				
End of the period	1 295	476	1 283	3 054
<u>Amortization</u>				
Start of the period	-909	-65	-241	-1 215
Movement during the year:				
- Charges	-2	-212	-6	-220
- Release	9			9
End of the period	-902	-277	-247	-1 426
<u>Net book value at the end of the period</u>	<u>393</u>	<u>199</u>	<u>1 036</u>	<u>1 628</u>
<u>Net book value at the end of the previous year</u>	<u>394</u>	<u>117</u>	<u>1 413</u>	<u>1 924</u>

#### NOTE 5 – TANGIBLE FIXED ASSETS

In K€	Lands	Buildings	Other installations, plant & machinery and furniture	Advances paid and construction in progress	Total
<u>Acquisition values</u>					
Start of the period	4 708	64 773	4 465	18 219	92 165
Movement during the period:					
- Acquisition	16 608	2 709	2 540	12 708	34 565
- Disposals	-2 328	-546	-773	-1 220	-4 867
- Reclassification	1 355	18 831	156	-18 235	2 107
- Conversion difference	-792	-1 640	-226	-1 433	-4 091
End of the period	19 551	84 127	6 162	10 039	119 879
<u>Amortization</u>					
Start of the period		-5 523	-1 480		-7003
Movement during the period:					
- Acquisition		-1 490	-1 515		-3 005
- Disposals		112	53		165
- Reclassification		-1 964	54		-1 910
- Conversion difference		447	77		524
End of the period		-8 418	-2 811		-11 229

Accounting value at the end of the period	<b>19 551</b>	<b>75 709</b>	<b>3 351</b>	<b>10 039</b>	<b>108 650</b>
Accounting value at the end of the previous period	<b>4 708</b>	<b>59 250</b>	<b>2 985</b>	<b>18 219</b>	<b>85 162</b>

#### NOTE 6 – STOCKS

The stocks entry mainly corresponds to 50 % of the office part of the Luxembourg Plaza project (an Orco Property company consolidated by proportional integration: cf. note 2 a), intended to be sold after completion and to the promotion projects in development of the subsidiary IPB Real acquired in 2003.

#### NOTE 7 - DEBTORS

Gross value (K€)			Provisions for doubtful debts (K€)			Net value (K€)		
2003	2002	2001	2003	2002	2001	2003	2002	2001
29 364	1 411	3 487	7 427	107	235	21 937	1 304	3 252

All debtors are due in less than one year.

#### NOTE 8 - CURRENT ASSET INVESTMENT

In K€	31 <sup>st</sup> December 2003	31 <sup>st</sup> December 2002	31 <sup>st</sup> December 2001
Own bonds	0	3.583	-
Marketable securities	135	-	91
Own shares	256	1.379	-
	<b>391</b>	<b>4.962</b>	<b>91</b>

#### NOTE 9 - EQUITY

Change in equity

	Subscribed share capital (1) K€	Share premium account (1) K€	Legal reserve (1) K€	Non- distributable reserve K€	Dividends K€	Consolidated reserves K€	Translation difference K€	Consolidated company shares K€	Profit/Loss of the year K€	Total K€
Situation on 31st December 2001	10.765	15.743	45	140		104	-331		1.976	28.442
Appropriation of the profit (loss) of the 2001 financial year		-	-	-		1.920	56		(1.976)	-
Changes in translation differences		-	-	-		-	2		-	2
Increase in share capital	1.079	2.380	-	-		-	-		-	3.459
Capital increase costs, net of tax		-126								-126
Own shares (3)								374		374
Consolidated profit for 2002		-	-	-		-	-		2.520	2.520
Situation on 31st December 2002	11.844	17.997	45	140		2.024	-273	374	2.520	34.671
Appropriation of the profit (loss) of the 2002 financial year			262		1.188	1.070			-2.520	0
Increase in share capital	4.626	14.970								19.596
Change of accounting method						-2.861			3.951	1.090
Capital increase costs, net of tax		-632								-632
Own shares (3)				116		374		-374		116
Changes in translation differences						212	-212			
Minority interests						1.827				1.827
Consolidated profit for 2003									-3.699	-3.699
Situation on 31st December 2003	16.470	32.335	307	256	1.188	2.646	-485	0	252	52.969

- (1) As at 31<sup>st</sup> December 2003, the subscribed capital of the parent company was 16.469,999,30 EUR represented by 4.017.073 shares without a nominal value. Share capital has been increased by 4.625 K€ (1.128.159 new shares) following stock options exercises (120.000 shares), the distribution of a dividend in shares (30.659 shares) et therefore the conversion of reserves into capital and lastly the capital increase by public issue (977.500 shares).
- (2) In accordance with Luxembourg company law, the company is required to appropriate a minimum of 5 % of the annual net profit to a legal reserve until the balance of such reserve equals 10 % of the issued share capital. The legal reserve is not available for distribution.
- (3) Orco Property Group shares on 31<sup>st</sup> December 2003 : 12.256 shares for an acquisition price of 256K€ classified in financial assets.



## NOTE 10 - PROVISIONS FOR LIABILITIES AND CHARGES

The change in provisions for liabilities and charges is:

In K€	31/12/2001	31/12/2002	Acquisitions	Disposals	Transfers	31/12/2003
Provision for interests on bonds	196	416	199	-413	-202	0
Provision for Fortune tax			135			135
Provisions for guarantees given			4609			4609
Provisions for litigation			1360			1360
Provision for repairs			525			525
Various	224	21	463		-21	463
<b>Total</b>	<b>420</b>	<b>437</b>	<b>7291</b>	<b>-413</b>	<b>-223</b>	<b>7092</b>

The evolution of the other risks and litigation with which the group is confronted and not being subject to a provision is the following:

- Opera Business Center (Budapest)

A subsidiary of Orco Property Group, Orco Budapest Rt, had litigation about the validity of the ownership of a building it holds. An amicable settlement of this litigation had been negotiated during the year. The full ownership of this building will be given back to Orco Budapest Rt in return of a complementary payment of 1,5 million dollars. The court's decision cancelling the appeals that each party has against the other has been postponed to June 2004 and delays the final settlement of this litigation. A comfort letter from Orco Holding to Orco Property Group guarantees any loss it could therefore risk.

## NOTE 11 – DEBTS

The residual debts terms are as follow:

2003 In K€	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non convertible bonds	2.735	10.000	-	12.735
Borrowings and overdrafts	15.391	35.970	19.272	70.633
Interest payable			-	-
Creditors on assets	6.349	-	-	6.349
Trade creditors	4.462	-	-	4.462
Tax liabilities	1.944	-	-	1.944
Amounts due to shareholders	3.457	-	-	3.457
Partial payments received	52.888			52.888
Other creditors	6.646	-	-	6.646
<b>Total</b>	<b>91.288</b>	<b>45.970</b>	<b>19.272</b>	<b>156.530</b>

2002 In K€	Less than 1 year	1 year to 5 years	More than 5 years	Total
Convertible bonds	2.812		-	2.812
Non convertible bonds	1.225	10.000		11.225
Borrowings and overdrafts	11.756	12.025	25.948	49.729
Interest payable	126			126
Creditors on assets	16	-	-	16
Trade creditors	4.116	-	-	4.116
Tax liabilities	969	-	-	969
Amounts due to shareholders	3.202	-	-	3.202
Other creditors	2.599	-	-	2.599
<b>Total</b>	<b>26.821</b>	<b>22.025</b>	<b>25.948</b>	<b>74.794</b>

<b>2001 In K€</b>	<b>Less than 1 year</b>	<b>1 year to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Convertible bonds	1.942	4.661	-	6.603
Borrowings and overdrafts	1.490	-	33.706	35.196
Interest payable	327	-	-	327
Creditors on assets	4.737	-	-	4.737
Trade creditors	4.284	-	-	4.284
Tax liabilities	426	-	-	426
Amounts due to shareholders	3.075	-	-	3.075
Other creditors	636	609	-	1.245
			-	
<b>Total</b>	<b>16.917</b>	<b>5.270</b>	<b>33.706</b>	<b>55.893</b>

As at 31<sup>st</sup> December 2003, all borrowings and overdrafts, were guaranteed by mortgages on the buildings and secured by the shares of the companies owning those buildings (note 20).

Bonds correspond to the following two issues:

<b>Number of bonds</b>	<b>Interest rate</b>	<b>Maturity</b>	<b>Amount in K€</b>
2 735	7%	09/2004	2 735
10 000	5,5%	12/2006	10 000
			12 735

#### **NOTE 12 – PREPAYMENT / DEFERRED INCOME**

Prepayments consist mainly of rents paid in advance and of share premiums for bonds amortized on the length of the loan.

Deferred income consists of future rents invoiced in advance

#### **NOTE 13 – SALES TURNOVER**

Geographical analysis of sales:

<b>In K€</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Czech Republic	20.326	8.351	7.482
Hungary	2.108	1595	461
Slovakia	39	21	
Luxembourg	303	83	41
Paris	4	9	15
<b>TOTAL</b>	<b>22.780</b>	<b>10.059</b>	<b>7.999</b>

Analysis of sales by activity:

<b>In K€</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Rental (offices)	2.091	4.804	3.785
Residential	1.446	5.132	2.222
Hotel residences	1.296	1.467	751
Hotels	4.954	3.665	1.471
Promotion	12.565	-	-
Services	427	123	73
<b>TOTAL</b>	<b>22.780</b>	<b>10.059</b>	<b>7.999</b>

Analysis of operational result by activity:

<b>In K€</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Rental (offices)	677	1.642	758
Residential	641	702	986
Hotel residences	233	519	286
Hotels	-642	-477	-348
Services	-1.266	710	-1.986
Promotion	3552		
<b>TOTAL</b>	<b>3.196</b>	<b>3.096</b>	<b>-304</b>

#### **NOTE 14 – CAPITALIZED PRODUCTION COSTS**

The capitalized production costs correspond to the performance of contracts realised by the group for its own behalf without margin (real-estate promotion for own behalf). The amount of capitalized production costs also includes study costs incurred during the year when the acquisition contract was signed.

#### **NOTE 15 - OPERATIONAL RESULT**

The financial result includes the transfer of 50% of the subsidiary Kosic SARL bearing the project of Kosic promotion, this transaction was clinched under the signature of a letter of intent in December 2003. The transaction was legally finalised during the first quarter 2004 but is considered as economically speaking being part of 2003. The buyer is a subsidiary of GE Golubb Capital.

#### **NOTE 16 - FINANCIAL RESULT**

The financial result is represented by interests paid on bank loans and bonds increased by the indemnity for prepayment following the credit refinancing linked to a group of buildings in Prague. This indemnity amounted to 1.744 KEUR. The new credit conditions will positively affect the following financial years in terms of lower financial charges but also in terms of cash flow.

#### **NOTE 17 – MINORITY INTERESTS**

In opposition to the previous years, the consolidated accounts take into account the positive impact of minority interests following Orco Hotel Group SA minority shareholders agreement to support the negative results for 2003 and previous years. The rate held by these minority shareholders is 23,5% of Orco Hotel Group SA.

The impact on reserves is -622KEUR and the charge for the loss amounts 1.201 KEUR having a positive result on consolidated profit and loss account.

#### **NOTE 18 – CORPORATE TAX**

As at 31<sup>st</sup> December 2003, the accounted tax is constituted up to 2.118 K€ of the deferred tax assets, and the due tax represents a charge of 760 K€

#### **NOTE 19 – DIRECTOR’S AND SHAREHOLDERS’ FEES**

The remunerations paid to the directors and/or to the shareholders for 2003, amount to 314 K€ in favour of Mr Ott and to 213 K€ in favour of Mr Pedretti.

## **NOTE 20 – OFF BALANCE SHEET COMMITMENTS**

### Stock-options:

The company has granted the following share options to 7 employees and / or directors:

- 40.000 shares in four instalments of 10.000 shares each, to be exercised between 1999 and 2004 at prices increasing from EUR 18 to EUR 22,80 per share;
- 80.000 shares to be exercised between 1999 and 2004 at EUR 12,65 per share, this option has been fully exercised in 2003;
- 80.000 shares to be exercised between 2001 and 2004 at EUR 12,65 per share, this option has been exercised up to 40 000 shares in 2003;
- 6.000 shares in three instalments of 2.000 shares each, to be exercised between 2001 and 2003 at prices increasing from EUR 20 to EUR 30 per share, this option has been cancelled in February 2004;
- 6.000 shares in three instalments of 2.000 shares each, to be exercised from 2002 at prices increasing from EUR 20 to EUR 30 per share;
- 6.000 shares in three instalments of 2.000 shares each, to be exercised between 2002 and 2004 at prices increasing from EUR 20 to EUR 30 per share;
- 3.000 shares in two instalments, first instalment of 2.000 shares in year 2003 for 25 EUR per share, and second instalment of 1.000 shares in year 2005 for 30 EUR per share.
- 3.000 shares in two instalments, first instalment of 1.500 shares in year 2003 for 25 EUR per share, and second instalment of 1.500 shares in 2004 for 30 EUR per share.

### Guarantees granted:

The following bank loans have been taken out with first-rate banking establishments and require two types of guarantees:

- Mortgage on the buildings,
- Pledge of shares of the companies owning those buildings.

Company	Buildings	Borrowings and overdrafts in K€			Maturity	Fixed rate F	Garantee	Bank
		31.12.2003	31.12.2002	31.12.2001		Variable rate V	P Pledge M Mortgage	
<b>Prague:</b>								
<b>Résidence Masaryk</b>	Jana Masaryk 40	1075	821	863	2018	V	P+M	Ceska Sporitelna
<b>Residence Belgicka</b>	Residence Belgicka	2543	2301	1490	2018	V	P+M	Ceska Sporitelna
<b>Americka Park</b>	Residence Am Park	1752			2018	V	P+M	Reinhyp AG
<b>Americka 33</b>	no building	3615			2004	V	P	Cesloslovenska
<b>Americka 33</b>	no building	5717			2007	V	P	Cesloslovenska
<b>Pachtuv Palac</b>	Pachtuv Palac	7791	7588	7588	2018	V	P+M	Ceska Sporitelna
<b>ORCO Hotel Dev</b>	Hotel Imperial	2725	2980	3220	2006	F	P+M	Depfa Bank
<b>Janackovo nabrezi 15</b>	Hotel Riverside	5007	3848	914	2008	F	P+M	Aareal Bank AG
<b>Anglicka 26</b>	Anglicka 26	172	3111	3430	2013	F	P+M	Aareal Bank AG
<b>Orco Vinohrady</b>	Belgicka 40	1612	1208	1249	2013	F	P+M	Aareal Bank AG
<b>Londynska 26 AS</b>	Londynska 26	1171	725	749	2013	F	P+M	Aareal Bank AG
<b>Manesova 28</b>	Manesova 28	2354	2456	-	2012	F	P+M	Aareal Bank AG
<b>Lond.41</b>	Londynska 41	3154	3788	3965	2013	F	P+M	Aareal Bank AG
<b>Americka-ORCO</b>	Americka 11, Americka 13	2404	1132	1256	2013	F	P+M	Aareal Bank AG
<b>Orco Property S.A</b>	Luxembourg Plaza	1530	1572	-		F	P+M	Raiffeisenbank as
<b>Zahrebska 35</b>	Zahrebska 35	2201	2264	2461	2013	F	P+M	Aareal Bank AG
<b>Belgicka-Na kozacce</b>	Na kozacce 1, Belgicka 36	3855	1652	1764	2013	F	P+M	Aareal Bank AG
<b>Nad Petruskou</b>	Nad Petruskou	1963	1424	1499	2013	F	P+M	Aareal Bank AG
<b>Americka 1</b>	Americka 1	5607	1539	-	2018	V	P+M	Raiffeisenbank as
<b>Location long terme:</b>								
<b>Machova Orco</b>	Machova 18	841	260	260	2013	F	P	Aareal Bank
<b>Budapest:</b>								
<b>Residence Izabella</b>	Izabella	2806	2942	-	2015	V	P+M	Rheinhyp AG
<b>ORCO Hotel Rt.</b>	Hotel Andrassy	4494	4719	3357	2011	F	P+M	Rheinhyp AG
<b>Orco Revay</b>	Revay	1676	1848	-	2006	V	P+M	Raiffeisen Bk Rt
<b>Varsovie :</b>								
<b>ORCO Warsaw</b>	Koscielna	4486	239	-	2013	V	P+M	Raiffeisen BI Pol
<b>Paris:</b>								
<b>Vinohrady sàrl</b>	Other assets	82			2007	F		CGI
<b>Total</b>		70633						

The guarantees granted to the financial establishments remain fully valid until complete reimbursement of credits. No part removal of pledge or mortgage has been provided for. No partial levying on pledge or mortgage has been scheduled.

### Long term leases:

The group has signed a long-term lease. It is an operating rather than a finance lease and it is for the following building:

- Machova 18 recorded in the accounts of Machova Orco.

### Transfer of a building by Americka 1

On 31<sup>st</sup> December 2003, the company Americka 1 signed an agreement about the transfer of a 12-apartment building, the building n°2 of the Americka project to the company Helmine Entreprises Inc. (Helmine). The total cost of the transaction amounts 5,4 MEUR + VAT. The price will be paid in several instalments during 2004; the first one of 2,8MEUR was paid on 23<sup>rd</sup> March 2004.

Orco Property Group (Orco) has been commissioned by Helmine to sell the apartments separately. It has been agreed between the parties that profit or loss as compared to a global transfer price of 5,8 MEUR will be subject to a division. If the total price of the sale of all the apartments is less than 5,8MEUR, this difference will be spread out equally between Orco and Helmine. If the total price of the sale of all the apartments is more than 5,8 MEUR, the division will be as follows:

The first portion of 300.000 EUR above 5,8 MEUR will go directly to Helmine.

The second portion of 300.000 EUR (6,1 to 6,4 MEUR) will be divided equally between Orco and Helmine.

Any amount above 6,4MEUR will be divided at the rate of 30% in favour of Helmine and 70% in favour of Orco.

### **NOTE 21 – NUMBER OF EMPLOYEES**

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Czech Republic	308	192	166
Hungary	30	45	36
France	11	6	8
Poland	5	2	1
Slovakia	1	1	1
Luxembourg	6	1	
<b>TOTAL</b>	<b>361</b>	<b>247</b>	<b>212</b>