ORCO PROPERTY GROUP

Consolidated financial statements

Orco Property Group's Board of Directors has approved on 27 March 2006 the consolidated financial statements for 2005. All the figures in this report are presented in thousands of Euros, except if explicitly stated.

I. Consolidated income statement

The accompanying notes form an integral part of these consolidated financial statements.

	Note	December 2 005	December 2 004 *
Revenues	6	**50 348**	**70 670**
Net gain from fair value adjustment on investment property	6	78 975	25 408
Other operating income		2 219	3 050
Gain on sale of activities held for sale	16	2 365	0
Cost of sales		-17 795	-43 819
Employee benefit	21.5	-13 259	-7 464
Amortization, impairments and provisions		-2 093	-6 220
Other operating expenses		-23 872	-10 796
Operating result		**76 888**	**30 829**
Foreign exchange result		1 355	509
Net interest expenses	18	-6 962	-5 515
Other financial results		1 056	1 177
Financial result		**-4 551**	**-3 829**
Profit before income taxes		**72 337**	**27 000**
Income taxes	19	-16 065	-8 211
Net profit		**56 272**	**18 789**
Attributable to minority interests		1 749	89
Attributable to the Group		**54 523**	**18 700**
Basic earnings in EUR per share	20	9,25	4,46
Diluted earnings in EUR per share	20	7,83	3,22

* Restated (see note 2.1)

II. Consolidated balance sheet

The accompanying notes form an integral part of these consolidated financial statements.

Assets			
	Note	December 2 005	December 2 004 *
NON-CURRENT ASSETS		**539 672**	**208 728**
Intangible assets		**718**	**1 250**
Investment property	8	**361 193**	**134 503**
Property, plant and equipment		**158 295**	**66 354**
Hotels and own-occupied buildings	9	126 034	48 398
Fixtures and fittings	10	7 397	5 802
Properties under development	11	24 864	12 154
Financial assets	12	**13 121**	**2 286**
Deferred tax assets	19	**6 345**	**4 335**
CURRENT ASSETS		**153 779**	**80 176**
Inventories	13	55 637	31 778
Trade receivables	14	5 553	22 145
Other current assets		43 500	10 511
Cash and cash equivalents	15	49 089	15 742
Held for sale activities	**16**	**0**	**20 054**
TOTAL		**693 451**	**308 958**

Equity and liabilities			
	Note	December 2 005	December 2 004 *
EQUITY		**293 799**	**108 855**
Shareholders'equity		**246 073**	**106 751**
Minority interests	17	**47 726**	**2 104**
LIABILITIES		**399 652**	**189 816**
Non-current liabilities		**312 943**	**101 612**
Bonds	18	84 364	30 829
Financial debts	18	183 060	56 655
Provisions		1 001	762
Deferred tax liabilities	19	44 518	13 366
Current liabilities		**86 709**	**88 204**
Bonds and financial debts	18	35 700	29 340
Trade payables		20 787	18 116
Advance payments		19 210	26 939
Other current liabilities		11 012	13 809
Held for sale activities	**16**	**0**	**10 287**
TOTAL		**693 451**	**308 958**

* Restated (see note 2.1)

III. Consolidated statement of changes in equity

The accompanying notes form an integral part of these consolidated financial statements.

	Share Capital	Share premium	Translation reserve *	Treasury shares	Other * reserves	Shareholders Equity *	Minority Interests *	Equity *
Balance at 1 January 2004	**16 470**	**33 440**	**0**	**-319**	**22 734**	**72 325**	**2 896**	**75 221**
Gains or losses for the period :								
Translation differences			3 991			3 991	1 244	5 235
Profit of the period					18 700	18 700	89	18 789
Dividends relating to 2003					-1 826	-1 826		-1 826
Capital increase	2 484	12 649			-230	14 903		14 903
Treasury shares				247	151	398		398
Convertible loan					961	961		961
Minority interests' transactions					-2 701	-2 701	-2 125	-4 826
Balance at 31 December 2004	**18 954**	**46 089**	**3 991**	**-72**	**37 789**	**106 751**	**2 104**	**108 855**
Gains or losses for the period :								
Translation differences			5 362			5 362	582	5 944
Profit of the period					54 523	54 523	1 749	56 272
Dividends relating to 2004					-3 498	-3 498		-3 498
Capital increase	8 896	72 875			-2 786	78 985		78 985
Convertible loan					-404	-404		-404
OBSAR					2 577	2 577		2 577
Treasury shares				72	35	107		107
Stock option plan					1 393	1 393		1 393
Acquisition of Suncani Hvar dd						0	40 625	40 625
Minority interests' transactions					277	277	2 666	2 943
Balance at 31 December 2005	**27 850**	**118 964**	**9 353**	**0**	**89 906**	**246 073**	**47 726**	**293 799**

* Restated (see note 2.1)

IV. Consolidated cash flow statement

The accompanying notes form an integral part of these consolidated financial statements.

	December 2 005	December 2 004
Operating Result	**76 888**	**30 829**
Net gain from fair value adjustments	-78 975	-25 408
Amortization, impairments & provisions	2 093	6 220
Gain and losses on disposal of investments	-2 777	-1 637
Stock options plans	1 393	-
Adjusted operating profit	**-1 378**	**10 004**
Financial result and income taxes paid	**-1 510**	**-3 560**
Changes in operating assets and liabilities	**-47 354**	**-13 654**
NET CASH FROM OPERATING ACTIVITIES	**-50 242**	**-7 210**
Acquisition of subsidiaries, net of cash acquired	3 759	-
Capital expenditures	-171 526	-29 398
Proceeds from sales of non current tangible assets	3 085	8 017
Purchase of intangible assets	-157	-159
Purchase of financial assets	-10 680	-
Proceeds from sale of held for sale activities	12 430	0
Net interest paid	-6 136	-4 498
NET CASH USED IN INVESTING ACTIVITIES	**-169 225**	**-26 038**
Issue of equity instruments from shareholders	81 398	7 267
Issue of equity instruments from minority	4 360	-
Proceeds from borrowings	195 152	39 360
Repayments of borrowings	-25 560	-13 320
Dividend paid to company's shareholders	-3 498	-1 826
NET CASH FROM FINANCING ACTIVITIES	**251 852**	**31 481**
NET INCREASE IN CASH	**32 385**	**-1 767**
Cash and cash equivalents at the beginning of the period	15 742	16 232
Exchange difference on cash	962	1 277
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**49 089**	**15 742**

Notes to the consolidated financial statements

1. General information

Orco Property Group, société anonyme (the Company) and its subsidiaries (together the Group) is a real estate group with a major portfolio in Central and Eastern Europe. It is principally involved in leasing out investment property under operating leases as well as in asset management, in operating hotels and extended stay hotels and is also very active in the development of properties for its own portfolio or intended to be sold in the ordinary course of business. During the year, the Group has substantially focused on growing its property portfolio with acquisitions in Budapest, Hvar, Berlin and Prague and developments in Moscow.

The Company is a limited liability company incorporated for an unlimited term and registered in Luxembourg. The address of its registered office is 8, Boulevard Emmanuel Servais, L-2535 Luxembourg.

The Company has a dual listing on the EuroNext Paris stock exchange and on the Prague stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Orco Property Group have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the European Union, with the exception of the following disclosures for the year ended 2005 together the related comparative information for 2004:

- the reconciliation between tax expense and accounting profit as required by IAS 12 - Income Taxes,
- the amount of capital expenditures disclosed by geographical segments as required by IAS 14 - Segment Reporting.

The group did not elect for early adoption of IFRS in 2004. As such, until 31 December 2004, the Group's consolidated financial statements were prepared in accordance with Luxembourg's Generally Accepted Accounting Principles (GAAP). Luxembourg GAAP differs in some areas from IFRS. In preparing the Group's 2005 consolidated financial statements, management has modified certain accounting, valuation and consolidation methods applied in the Luxembourg GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments, except as described in the accounting policies. Reconciliations and descriptions of the effect of the transition from Luxembourg GAAP to IFRS on the Group's equity and its net income are presented in note 5.

Additionally, the comparatives figures in respect of 2004 as published as part of both IFRS conversion and interim consolidated financial statements for the half-year ended 30 June 2005 have been restated in order to reflect the recognition of deferred tax liabilities on all revaluations at their fair value of the investment properties. This change has been required by the strict application of IAS 12 that requires, as recommended by the Group auditors, not to take into account the fact that the sale of our properties takes place through a share deal while the group has adopted such a structure in order to not bear any tax on sale of investment properties. This resulted in the following restatements in the 2004 comparative figures:

- an additional deferred tax liability amounting to EUR 9.1 million;
- a deferred income tax expense amounting to EUR 0.7 million; and
- a decrease in equity attributable to Group shareholders amounting to EUR 7.9 million.

Furthermore, the Group elected to reclassify EUR 7.9 million from other operating expenses to cost of sales in the comparative income statement.

The consolidated financial statements have been prepared under the historical cost convention except that investment property is carried at fair value as well as available-for-sale financial assets, and financial assets or financial liabilities (including derivative instruments) at fair value through income statement.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

These consolidated financial statements have been prepared in accordance with IFRS and are covered by IFRS 1, First-time Adoption of IFRS. Latest developments in IFRS and interpretations have also been taken into consideration as noted hereunder:

Interpretations and amendments to published standards effective in 2005

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation - Special Purpose Entities (effective from 1 January 2005); and
- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Early adopted interpretations

- **IFRIC 4, Determining whether an Arrangement contains a Lease** (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group has elected for early adoption of IFRIC 4 which has no impact on the accounting for any of the Group's current arrangements.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.
- **Amendments to IAS 21, The Effects of Changes in Foreign Exchanges Rates, Net Investments in a Foreign Operation** (effective from 1 January 2006). The Group is currently assessing the impact of these amendments and standards and does not expect at this stage that they would significantly impact the Group's financial position.
- **IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions** (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.
- **IAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.
- **IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.
- **IFRS 6, Exploration for and Evaluation of Mineral Resources** (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.
- **Amendment to IFRS 6, Exploration for and Evaluation of Mineral Resources** and consequential amendment, to IFRS 1, First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006) is not relevant to the Group's operations.
- **IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective 1 March 2006) is not applicable to the Group.
- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group

assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

- **IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.
- **IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment** (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Joint-ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

The exchange rates against euros (EUR) used to establish these consolidated financial statements are as follows:

Currency Code	Currency	31 December 2005		31 December 2004	
		Average	Closing	Average	Closing
CZK	Czech Koruna	0.03355	0.03448	0.03133	0.03282
HUF	Hungarian Forint	0.00402	0.00396	0.00398	0.00407
HRK	Croatian Kuna	0.13570	0.13558	N.A.	N.A.
PLN	Polish Zloty	0.24862	0.25908	0.22156	0.24565
SKK	Slovak Koruna	0.02591	0.02642	0.02493	0.02578

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in euros (EUR), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences arising from the translation of the net investment in foreign entities are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/joint-venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint-ventures is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition from which the goodwill arose.

Negative goodwill arising on an acquisition is recognised in the income statement, in net gain from fair value adjustment on investment property.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives (not exceeding three years).

2.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both (including the land bank), and that is not occupied by the Group, is classified as investment property.

Investment property comprises freehold land, freehold buildings, land held under operating lease and buildings held under finance lease.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried out at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed annually by an independent expert, DTZ Debenham Tie Leung. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

The pieces of land on which are located buildings under construction that will qualify as investment property at completion of the construction are from the beginning classified as investment property and hence recorded at fair value. This includes all plots of land held by the Group on which no construction or development has started at the balance sheet date.

Freehold lands, for which the destination is not determined at year end, are classified under the land bank category.

Hotel buildings held by the Group are not classified as investment property but rather as property, plant and equipment.

2.7 Property, plant and equipment

Hotels and own-occupied buildings, fixtures and fittings, properties under development are classified as property, plant and equipment.

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation, based on a component approach, starts off when construction or development is completed. Depreciation is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

- Land Nil
- Buildings 50 - 80 years
- Fixtures and fittings 3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset.

2.8 Leases

(a) A group company is the lessee

i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

(b) A group company is the lessor

i) Operating lease

Properties leased out under operating leases are included in investment property in the balance sheet.

ii) Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

2.9 Impairment of assets

Assets including goodwill that have an indefinite useful life are not subject to systematic amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.10 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables (note 2.12) and other current assets in the balance sheet.

b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are initially recognised at fair value plus transaction costs. Available for sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Changes in the fair value of available for sale financial assets are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.12.

2.11 Inventories

Investment properties that are being developed for future sale are classified as inventories at their cost or deemed cost , which is the carrying amounts at the date of reclassification from investment property. They are subsequently carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses.

2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds in other reserves.

The shares of the Company (Orco Property Group, société anonyme) held by the Group -Treasury shares - are measured at their acquisition cost and recognized as a deduction from equity. Gains and losses on disposal are taken directly to equity.

2.15 Borrowings

The term Borrowings covers the elements recorded under the captions Bonds and Financial debts within the non-current liabilities and the caption Financial debts within current liabilities.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Investment property

Deferred income tax is provided on all temporary differences arising on fair value of buildings and lands held by the Group as investment properties even when they are located in special purpose entities, which are themselves held by a company based in Luxembourg. Each special purpose entity is meant to hold one specific project. Possibly, should a special purpose entity be disposed of, the gains generated from the disposal will be exempted from any tax (in accordance with the Grand-ducal regulation of 21 December 2001), if the Luxembourg-based company holds or commits itself to hold this stake for a minimum of a continuous 12-month period and, if, during this same period, the stake amounts to at least 10% of the affiliate's capital or the acquisition price amounts to at least EUR 6 million. The Group is confident that all special purpose entities will comply with these conditions.

The Group does not believe that for investment properties this recognition reflects the economic reality. Indeed it does not take into account its holding structure which has an influence on the deferred tax calculation as the Group intends to recover its investment by selling its shares in the special purpose entity.

The impact on the Group's financial statement of these deferred taxes that would only materialise if the existing holding structure would not be in existence or would not be used in the assumption of a sale of all investment properties (asset deal vs. share deal) has been measured and disclosed in note 8.

2.17 Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the Group, as lessee, is contractually required to restore a leased-in property to an agreed condition, prior to release by a lessor, provision is made for such costs as they are identified.

2.18 Derivative financial instruments and hedging activities

Derivatives are initially recognized in the balance sheet at their fair value on a date a derivative contract is entered into and are subsequently remeasured at their fair value which is generally the market value. Derivatives are presented, at the balance sheet date, within other current assets or other current liabilities.

Embedded derivatives that are not equity instruments – such as issued call options embedded in exchangeable bond - are recognized separately and changes in fair value are accounted for through the income statement.

2.19 Revenue recognition

Revenue includes rental income, service charges and management charges from properties, and income from property trading.

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Service and management charges are recognised in the accounting period in which the services are rendered. When the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

2.21 Share option plans

Share options are granted to certain directors and senior employees. The options are granted at the market price on the date of the grant and are exercisable at that price.

The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2.22 Subscription rights and PACEO

The Group grants share options to third parties as part of its financing program. Any consideration received is added directly to equity. Changes in the fair value of those equity instruments are not recognized in the financial statements.

3 Financial risk factors

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The group 's overall risk management programme focuses on the unpredictabilitity of financial markets and seeks to minimise potential adverse effects on the group financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's Chief Financial Officer (CFO) and his team under policies approved by the Board of Directors. The Group's CFO identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF), the Slovak Koruna (SKK) and the Croatian Kuna (HRK). Foreign exchange risk arises from recognised monetary assets and liabilities and net investments in foreign operations. The Group does not hedge its foreign exchange risks. Salaries, overhead expenses, future purchase contracts in the development sector, building refurbishment and construction costs are denominated in local currencies. Loans, operating income and - except in the development activities - sales of building are denominated in euros (EUR).

(ii) Price risk

The Group is exposed to property price and property rentals risk but it does not pursue any speculative policy. Eventhough the Group's activities are focused on one geographical area - Central and Eastern Europe - such activities are spread over several business lines (residences, offices, hotels) and different countries that each undergo specific business cycles.

(b) Credit risk

The Group has no significant concentrations of credit risk. Rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the inherent nature of its assets the Group is subject to a liquidity risk. However, over the medium and long term this risk appears as remote since most loans expire at the earliest in 2010.

(d) Cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has now started to hedge some of its variable interest rates by entering into swap transactions.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of assumptions underlying the discounted cash flow approach investment properties is not available, the fair values of investment properties are determined using discounted flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the potential use of the asset, the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. The fair value is based on the potential use of the properties as determined by the Group. Fair value is the highest value, determined from market evidence, by considering any other use that is financially feasible, justifiable and reasonably probable. The "highest and best-use" value results in a property's value being determined on the basis of redevelopment of the site. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(b) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As stated in note 2.16, the calculation of deferred tax on investment properties is not based on the fact that they will be realised through a share deal but through an asset deal. As a result of the Group structure, the potential capital gain may be exempted from any tax in case of share deal if certain conditions are met and hence the accumulated deferred tax liabilities may be recognised as a gain.

(c) Determination of remaining construction costs

All development projects are subject to individual financial forecasts and balances, prepared by the Group and based on the best estimate of the construction costs to be incurred as part of the projects. The costs incurred are subject to specific controls by the Group and the project balances, showing the costs incurred as well as the remaining construction costs, are updated on a regular basis. This information is used to determine the net realisable value of inventories as well as the fair value less cost to sale for the impairment test of properties under development.

4.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

Where applicable, the land on which new properties are under development is recognised separately as an investment property. In such a case the land is fair valued through the income statement on the basis of a percentage of the value determined by the independent valuation expert for the full property under development (land and construction).

5. IFRS transition

The financial information included in this note relates to the IFRS conversion as presented in the interim consolidated financial statements as at 30 June 2005. Therefore, it does not include the restatements described in note 2.1.

2005 is the first year in which accounts are presented under IFRS. They also include the accounts as at 31 December 2004 restated for IFRS standards. Pursuant to the recommendation of the EFRAG, the present document includes the following information :

- Reconciliation between the balance sheet for the financial year ending 31 December 2003, prepared according to Luxembourg accounting standards, and the opening balance sheet at 1 January 2004, prepared according to IFRS.
- Reconciliation of the income statement for the year ending December 2004, prepared according to Luxembourg accounting standards and IFRS.

The main standards having a significant impact on the transposition of Orco Property Group accounts into IFRS are indicated as follows:

IFRS 1	First time adoption of IFRS
IAS 2	Inventories
IAS12	Income taxes
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 32 and 39	Financial instruments: disclosure and presentation and Financial instruments: recognition and measurement
IAS 40	Investment property

IFRS1 applies to businesses presenting for the first time their financial statements under IFRS. This standard provides for the retroactive application of all the rules and interpretations prevailing during the transition period. The standard provides for exemptions and exceptions in certain cases.

Assets, liabilities and equity, recognized and evaluated according to IFRS, must also be classified according to the same standards.

The Group has opted for the exemptions and exceptions as indicated below:

- Fair value is used as the deemed cost for all investment properties, own-occupied buildings, hotels as well as assets to be sold as part of ordinary activities. Hotels under construction as at 1 January 2004 are accounted for at their historic cost as defined by IFRS.
- Currency translations on all foreign entities are assumed to be equal to zero. Gains and losses on the subsequent sales of foreign entities will exclude the currency translation differences generated before the transition date to IFRS and will include the subsequent translation changes.
- No retroactive application of the standard relating to business combinations. Transactions made before 1 January 2004 are not restated.

Reconciliation between the balance sheet for the financial year ending 31 December 2003, prepared under Luxembourg accounting standards, and the opening balance sheet at 1 January 2004, prepared under IFRS.

The opening balances have been restated for deferred taxes on investment properties (see note 2.1). This restatement has not been included in the tables below.

Assets	Published	Transfer	Deemed cost	Leasing	IAS 32 & 39	Provisions	Translation	Taxes	Others	IFRS
NON-CURRENT ASSETS	**110 416**	**-1 425**	**41 951**	**804**	**0**	**0**	**0**	**2 331**	**4 866**	**158 943**
Intangible assets	**1 628**	**-977**	**0**	**0**	**0**	**0**	**0**	**0**	**-282**	**369**
Tangible assets	**108 650**	**-6 509**	**41 951**	**804**	**0**	**0**	**0**	**0**	**5 148**	**150 044**
Investment property										92 857
Hotel and own-occupied buildings										32 764
Fixtures and fittings										3 398
Properties under development										21 025
Financial assets	**138**	**17**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**155**
Deferred tax assets		**6 044**						**2 331**		**8 375**
CURRENT ASSETS	**104 839**	**1 442**	**-4 936**	**0**	**-800**	**-3 779**	**-242**	**-170**	**-8 863**	**87 492**
Inventories	42 795	5 075	-4 936	0	0	-3 934	0	0	0	39 001
Trade receivables	21 937	892	0	0	0	155	0	0	33	23 017
Deferred tax assets	8 102	-8 102	0	0	0	0	0	0	0	0
Other current assets	15 454	3 577	0	0	-481	0	-242	-170	-8 896	9 242
Cash and cash equivalents	16 551	0	0	0	-319	0	0	0	0	16 232
TOTAL	**215 255**	**17**	**37 015**	**804**	**-800**	**-3 779**	**-242**	**2 161**	**-3 997**	**246 435**

Equity and liabilities	Published	Transfer	Deemed cost	Leasing	IAS 32 & 39	Provisions	Translation	Taxes	Others	IFRS
EQUITY	**51 146**	**17**	**37 016**	**0**	**-319**	**1 386**	**-613**	**-451**	**-4 611**	**83 571**
Shareholders' equity	52 969	12	30 791	0	-319	1 392	-569	-2	-4 682	79 592
Minority interests	-1 823	5	6 225	0	0	-6	-44	-449	71	3 979
PROVISIONS	**7 579**	**-7 579**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
LIABILITIES	**156 530**	**7 579**	**0**	**804**	**-481**	**-5 164**	**371**	**2 611**	**614**	**162 865**
Non-current liabilities	**80 975**	**-7 374**	**0**	**804**	**-481**	**-5 441**	**371**	**2 611**	**0**	**71 465**
Bonds	12 735	-2 735	0	0	-481	0	0	0	0	9 519
Financial debts	67 018	-10 947	0	804	0	0	0	0	0	56 875
Other debts	1 222	-1 159	0	0	0	0	0	-63	0	0
Provisions	0	6 980	0	0	0	-5 441	371	0	0	1 910
Deferred tax liabilities	0	487	0	0	0	0	0	2 674	0	3 161
Current liabilities	**75 555**	**14 953**	**0**	**0**	**0**	**277**	**0**	**0**	**614**	**91 400**
Financial debts	3 615	14 511	0	0	0	0	0	0	0	18 126
Trade payables	10 811	0	0	0	0	0	0	0	0	10 811
Advance payments	52 888	330	0	0	0	0	0	0	0	53 218
Debts towards shareholders	3 457	173	0	0	0	0	0	0	0	3 630
Other current liabilities	4 784	-61	0	0	0	277	0	0	614	5 615
TOTAL	**215 255**	**17**	**37 016**	**804**	**-800**	**-3 778**	**-242**	**2 160**	**-3 997**	**246 435**

Transfer

This column mainly consists of the transfer of IPB land sites (EUR 6.5 million) to inventories which will be used for real-estate projects meant for sale as part of the ordinary activities of the business. All development costs are capitalized and booked to the cost of goods sold at the time of the effective transfer of the good.

The other reclassifications relate to the breakdown between current and non-current activities as well as the transfer to previously unused captions.

Deemed cost

In terms of tangible fixed assets, an exemption to IFRS 1 is applicable. Fair value is used as the deemed cost for all investment buildings, hotels and own-occupied buildings as well as assets to be sold as part of ordinary activities.

In terms of inventories, a certain number of costs linked to IPB real-estate projects, which had earlier been capitalized can no longer be so under IAS 2 (EUR 4.9 million before taxes; EUR 3.7 million net of taxes).

Leasing

The group holds two buildings via finance leases. As they were not booked previously, these buildings are now booked to assets and to debt in liabilities.

The review of operating leases did not lead to a significant change in rental income.

Pursuant to the requirements of IAS 17, financial leases are valued at the present value of the minimum payments for the lease (EUR 0.8 million).

IAS 32 & 39

The impact of the standards relating to financial instruments is limited to the reclassification of treasury stock within Equity (EUR 0.3 million) and the premium on bond issues (EUR 0.5 million) now included in the amortized cost of bonds.

Provisions

The sum of provisions which are not compliant with IAS 37 is booked to opening equity reserves (EUR 1.4 million). An amount of EUR 4 million has been reclassified from provisions to the appropriate assets/liabilities items.

Translation

Cumulative currency translations before 1 January 2004 are booked to the opening equity reserves account.

Taxes

All adjustments to deferred taxes relate to the assessment of local taxes as well as to IFRS restatements (EUR 0.7 million).

The Group has proceeded to a systematic review of the fiscal situation of each of its subsidiaries in order to book correctly the deferred tax. All adjustments relating to parent-company accounts are booked net of taxes when the standard is applicable.

Tax assets and liabilities were estimated using the tax rate and fiscal base that are consistent with the expected method of recovery or settlement. Therefore, given the structure of the Group's property-asset base, most of the revaluations did not generate deferred tax.

Others

In terms of intangible fixed assets, this mainly entails the cancellation of start-up and research costs, which cannot be capitalized under IFRS (EUR -0.3 million). The correction of other debtors mainly relates to the disposal of 50% of Kosic to General Electric of which the transfer of risks and rewards, according to IFRS, was not complete until 2004 (EUR 3.9 million). The capital gain on this operation is booked in 2004 under IFRS and not in 2003.

Reconciliation of the income statement for the year ending 31 December 2004 under Luxembourg accounting standards and IFRS.

The income statement has been restated for deferred taxes on investment properties and for the reclassification from other operating expenses to cost of sale (see note 2.1). Those restatements have not been included in the table below.

	Published	Transfer	IAS 2, 16 & 40	Leasing	IAS 32 & 39	Translation	Taxes	Others	IFRS
Revenue	**71 224**	**0**	**0**	**0**	**0**	**0**	**0**	**-554**	**70 670**
Net gain from fair value adjustment on investment property	0	0	25 408	0	0	0	0	0	25 408
Fixed production	1 878	-271	0	0	0	0	0	-1 607	0
Other operating income	13 084	-834	-10 693	0	0	0	0	1 493	3 050
Cost of sale	-50 631	-583	-1 169	44	230	0	0	386	-51 723
Employee benefit	-7 726	262	0	0	0	0	0	0	-7 464
Amortization and impairments	-7 702	1 274	-9	0	0	0	0	217	-6 220
Other operating expenses	-2 636	-235	-21	0	0	0	0	0	-2 892
Operating result	**17 491**	**-387**	**13 516**	**44**	**230**	**0**	**0**	**-65**	**30 829**
Foreign exchange result	-949	0	0	0	0	1 458	0	0	509
Net interest charges	-5 274	141	0	-74	-70	0	0	-238	-5 515
Other financial results	1 505	987	0	0	-151	0	0	-1 164	1 177
Financial result	**-4 718**	**1 128**	**0**	**-74**	**-221**	**1 458**	**0**	**-1 402**	**-3 829**
Exceptional result	**-403**	**-741**	**1 137**	**0**	**0**	**0**	**0**	**7**	**0**
Profit before taxes	**12 370**	**0**	**14 653**	**-30**	**9**	**1 458**	**0**	**-1 460**	**27 000**
Income taxes	-6 250	0	0	0	0	0	-1 284	0	-7 534
Net profit	**6 120**	**0**	**14 653**	**-30**	**9**	**1 458**	**-1 284**	**-1 460**	**19 466**
Attributable to minority interests	-472	0	637	0	0	-263	184	32	117
Attributable to the Group	**6 592**	**0**	**14 016**	**-30**	**9**	**1 721**	**-1 468**	**-1 492**	**19 349**

Transfer

The transfers mainly relate to the elimination of the notion of exceptional items, but also to the reclassification of items that had previously been incorrectly allocated.

IAS 2, 16, 40

This column (EUR 14.7 million) mainly reflects the revaluation of land sites and buildings at their market value as well as the correction of the inventory value of development projects booked as stock (EUR 1.2 million), the IFRS criteria for capitalization being different from those previously applied. The reversal of the reduction in value of the Benice site, booked to the property asset reserve, is transferred to profit net of revaluation (EUR 10.6 million).

The correction of exceptional result is attributable to changes in inventory value under IFRS 1 due to the sale of assets during the year ended 31 December 2004.

Leasing

The group holds two buildings via finance leases. As they were not booked previously, these buildings are now booked to assets and to debt in liabilities.

The review of operating leases did not lead to a significant change in rental income.

Pursuant to the stipulations of IAS 17, the contractual payments from financial leases are replaced by the depreciation of capitalized buildings and interest charges.

IAS 32 and 39

This column includes the correction under the effective interest rate method for interest on the convertible bond issued in September 2004 (EUR 0.1 million), the cancellation of capital increase costs (EUR 0.2 million) and the cancellation of gains/losses on treasury stock operations (EUR 0.2 million).

Currency translations

Under IFRS the Group has adopted as functional currency the local currency of each entity. The euro was previously considered as the functional currency for certain entities.

Taxes

All adjustments to deferred taxes relate to the assessment of local taxes as well as to IFRS restatements.

The Group has proceeded to a systematic review of the fiscal situation of each of its subsidiaries in order to book correctly the deferred tax. All adjustments relating to parent-company accounts are booked net of taxes when the standard is applicable.

Tax assets and liabilities were valued using the tax rate and fiscal base that are consistent with the expected method of recovery or settlement. Therefore, given the structure of the Group's property-asset base, most of the revaluations did not generate deferred tax.

Others

The other adjustment mainly concern:

- The disposal of 50% of Kosik to General Electric of which the transfer of risks and rewards according to IFRS took place in 2004. The capital gain on this operation was booked in 2004.
- The restatement of acquisition deals of third-party interests.
- The adjustment of inter-company transactions.

6. Segment reporting

6.1 Primary reporting format – business segments

The Group is organised on a European basis into four main segments determined in accordance with the type of activity :

- Renting : leased out residences, offices or retail buildings, property management and asset management and buildings under construction that are meant to be leased.
- Extended stay hotels : includes all the MaMaison Residences activities.
- Hotels : small luxury hotels.
- Development : development of projects meant to be disposed off unit by unit, the land bank and project management.

Corporate expenses are allocated on the basis of the revenue realised by each activity. Segment assets consist primarily of tangible assets, inventory and receivables. Unallocated assets comprise deferred tax assets and cash and cash equivalents. Segment liabilities include operating liabilities. Unallocated liabilities are essentially the aggregate of litigation provisions, taxation liabilities and borrowings.

As at December 2005	Development	Hotels	Renting	Extended stay hotels	Other services	Intersegment activities	**TOTAL NET**
Revenues	21 925	16 840	7 584	4 694	3 087	-3 782	**50 348**
Net result on revaluation	36 436	13 296	20 178	9 065		0	**78 975**
Other operating results	-23 268	-20 005	-8 761	-5 488	1 681	3 406	**-52 435**
Segment result	**35 093**	**10 131**	**19 001**	**8 271**	**4 768**	**-376**	**76 888**
Financial result							-4 551
Profit before income taxes							**72 337**
Income taxes							-16 065
Net Profit							**56 272**
Attributable to minority interests							-1 749
Attibutable to the group							**54 523**
Segment assets	**184 306**	**132 561**	**209 904**	**74 778**	**0**	**-11 915**	**589 634**
Unallocated assets							103 817
Total assets							**693 451**
Segment liabilities	**38 160**	**5 948**	**11 965**	**2 774**	**0**	**-3 801**	**55 046**
Unallocated liabilities							638 405
Total liabilities							**693 451**
Cash flow elements							
Amortizations, impairments and provisions	1 524	-2 641	-26	-943	-7	0	**-2 093**
Capital expenditure	12 655	6 174	137 549	11 719			**168 097**

Other operating results include amongst others the operating expenses representing advisory and marketing expenses, maintenance and service costs, professional fees and travel expenses.

As at December 2004	Development	Hotels	Renting	Extended stay hotels	Other services	Intersegment activities	TOTAL NET
Revenues	60 554	7 920	6 558	2 685	-	-7 047	**70 670**
Net result on revaluation	17 044	0	5 320	3 044	-	0	**25 408**
Other operating results	-54 321	-8 758	-6 514	-2 702	-	7 046	-65 249
Segment result	**23 277**	**-838**	**5 364**	**3 027**	**-**	**-1**	**30 829**
Financial result							-3 829
Profit before income taxes							**27 000**
Income taxes							-8 211
Net Profit							**18 789**
Attributable to minority interests							-89
Attibutable to the group							**18 700**
Segment assets	**97 875**	**50 238**	**61 964**	**53 270**	**-**	**-6 397**	**256 950**
Unallocated assets							52 008
Total assets							**308 958**
Segment liabilities	**44 793**	**3 229**	**6 025**	**3 123**	**-**	**-5 895**	**51 275**
Unallocated liabilities							257 683
Total liabilities							**308 958**

6.2 Secondary reporting format – geographical segments

The Group's four business segments operate in Central European countries among which the most activities are presently generated in the Czech Republic, in Croatia, in Hungary and in Poland. With exception of these countries, no other individual country contributed more than 10% of consolidated sales or assets. The location of the customers is the same as the location of the assets.

	December 2 005	December 2 004
Czech Republic	34 149	66 608
Croatia	6 797	-
Hungary	3 020	3 539
Poland	4 298	863
Other Central European countries	4 053	77
Intersegment activities	-1 969	-417
Revenue	**50 348**	**70 670**

	December 2 005	December 2 004
Czech Republic	320 013	194 698
Croatia	74 871	-
Hungary	111 669	33 083
Poland	64 667	30 617
Other Central European countries	29 336	3 137
Intersegment activities	-13 086	-4 347
Segment assets	**587 470**	**257 188**
Non allocated assets	105 981	51 770
Total assets	**693 451**	**308 958**

7. Acquisitions

In 2005 the Group has enterred into two business combinations.

- The acquisition in June of 100% of the capital of BP Servis, a property management company. The company is fully consolidated since the date of acquisition. The following table describes the calculation of the cash flow on acquisition net of the cash and cash equivalents acquired:

BP Servis	
Intangible assets	86
Trade receivables	301
Other current assets	58
Cash and cash equivalents	274
Payables	-572
Acquisition price	**-147**
Less cash acquired	274
Cash flow on acquisition net of cash acquired	**127**

- The acquisition in July through a capital increase of 47.7% of Suncani Hvar dd, a company carrying 10 hotels on the island of Hvar in Croatia. The company is fully consolidated since the date of acquisition.

  The hotel portfolio has been fair valued using EBITDA multiples and rates per room multiples based on management assumptions and estimates. The valuation has been made on the basis of the future intended use of the hotels. For hotels which will be demolished, 95% of the fair value has been attributed to the land whereas for hotels to be refurbished, the allocation of value to the land has been based on a ratio of 40% applied to the estimated properties values after refurbishment costs. The remaining fair value has been attributed to the buildings.

  The contribution of Suncani Hvar dd to the 2005 revenues amounts to EUR 6.8 million and a negative goodwill of EUR 13.3 million has been recognized in the income statement on the same line as the gains and losses from fair value adjustments on investment property.

  As part of the transaction, the Group acquired the right to subscribe, as from 1 September 2006, to an increase in share capital of HKR 100 million through the issuance of 1 million shares with a fixed nominal value, excluding all shareholders from their pre-emptive right. This financial instrument has been valued using Black-Scholes valuation model and is recorded in the Group assets, under the caption other current assets. As for any derivative instrument, the movements in fair value after the acquisition are recorded through the income statement.

  Additionally, under certain conditions related to the financing of the investments, the Group has acquired an additional right to subscribe to a further increase in share capital of HKR 100 million through the issuance of 1 million shares with a fixed nominal value, excluding all shareholders from their pre-emptive right.

  The following table describes the calculation of the cash flow on acquisition net of the cash and cash equivalents acquired:

Suncani Hvar	
Tangible assets	72 998
Inventories	102
Trade receivables	536
Other current assets	122
Cash and cash equivalents	27 350
Minority shareholders	-40 728
Long term financial debts	-8 698
Provisions	-293
Deferred tax liabilities	-6 475
Short term financial debts	-6 102
Payables	-1 798
Net equity acqired	**-37 014**
Negative goodwill on acquisitions	13 296
Acquisition price	**-23 718**
Less cash acquired	27 350
Cash flow on acquisition net of cash acquired	**3 632**

Suncani Hvar is party to a certain number of claims on the ownership of assets or part of assets. The shareholder agreement in place between the Company and The Privatization Fund secures the Company for compensation in case Suncani Hvar would loose the ownership of the assets.

8. Investment property

Investment property	Buildings under finance lease	Freehold buildings	Land	Extended stay hotels	Land bank	Total
Balance at 1 January 2004	**1 511**	**38 633**	**3 660**	**32 583**	**16 470**	**92 857**
Revaluation	-2	7 745	2 424	3 043	12 198	**25 408**
Investments / acquisitions	0	9 297	0	5 549	9	**14 855**
Asset sale	0	-6 361	0	0	0	**-6 361**
Transfer	0	0	0	6 688	0	**6 688**
Translation differences	1	306	-191	-664	1 604	**1 056**
Balance at 31 December 2004	**1 510**	**49 620**	**5 893**	**47 199**	**30 281**	**134 503**
Revaluation	-428	28 826	6 874	9 065	21 341	**65 678**
Investments / acquisitions	5	127 316		10 802	12 655	**150 778**
Asset sale		-2 312				**-2 312**
Transfer	404	10 419	-4 234	-416	859	**7 032**
Translation differences	19	2 300	67	769	2 359	**5 514**
Balance at 31 December 2005	**1 510**	**216 169**	**8 600**	**67 419**	**67 495**	**361 193**

Variations in 2005

Two projects (Kosic project -a joint-venture with a subsidiary of General Electric- and Nove Madlanky) have been divided in three phases. The plots of land relating to the two last phases have therefore been transferred from inventory to investment property until the potential developments start.

During the year, the Group has invested EUR 151 million in the following projects :

- Freehold buildings: the Ofer portfolio in Budapest for EUR 74.9 million (revaluation recognised in 2005: EUR 0.9 million), EUR 26.8 million in the Na Porici office building in Prague 1 (revaluation recognised in 2005: EUR 7.2 million), EUR 12.8 million in five appartment buildings in Berlin (revaluation recognised in 2005: EUR 5.8 million), one shopping center in Brno for EUR 4.2 million (revaluation recognised in 2005: EUR 1.1 million) and buildings to be refurbished in Spedleruv mlyn and Prague for EUR 5.8 million.
- Extended stay hotels : the new Diana residence in Warsaw represented an investment of EUR 10.7 million (revaluation recognised in 2005: EUR 5.2 million).
- Land bank : acquisition of a plot for future development project in Slovakia for EUR 4.4 million and the rest in plots in the Czech Republic.

As its offices and shopping spaces are currently for rent, the Zlota City Center building located in the center of Warsaw is fair valued at EUR 23.0 million after recognition of a gain on revaluation of EUR 6.6 million in 2005 (EUR 4.8 million in 2004) and is classified under the “Freehold buildings”. The fair value is based on the fact that in the near future, the Group is confident in obtaining a building permit to replace the existing building by a prestigious commercial and residential tower of 192 meters. The acquisition cost of this building also includes a prepaid operating lease for the land with an upfront payment in 2004 amounting to PLN 23.8 million. The term of the lease is 99 years starting from 1991.

The plot Hagibor located in Prague 10 in the Czech Republic is dedicated to the future development of an office property for Radio Free Europe with very high specifications. While the plot is still classified as “Landbank”, it has been fair valued at EUR 17.5 million with a gain on revaluation of EUR 9.2 million in 2005 (EUR 0.4 million in 2004) on the assumption that the property will be leased to Radio Free Europe.

The Luxembourg Plaza in Prague is currently under development. However, the land on which the Luxembourg Plaza is located is classified in investment property and revalued at year end. The revaluation recorded on this land in 2005 amounts to EUR 6.9 million.

In 2005, the freehold buildings sale relates to the finalisation of the sale of one apartment to a Board member of the Group. The total transaction amounted to EUR 0.4 million and the Group did not record any material difference compared to the last DTZ valuation. The other sales concern luxury appartments in Prague in the Zharebska, Americka and Rybalkova buildings. The total transactions amounted to EUR 2 million (see note 25).

The total revaluation of investment properties amounts to EUR 65.7 million. This amount does not include the negative goodwill of EUR 13.3 million on the first consolidation of Suncani Hvar which is recognised on the same line in the income statement (see note 7).

Variations in 2004

At 31 December 2003, the Group signed an agreement about the transfer of a 12-apartment building –the building n°2 of the Americka project in Prague- to the company Helmine Entreprises Inc. The transfer of ownership occurred in 2004 and has therefore been accounted for the same year under IFRS. The total transaction proceeds amounted to EUR 5.4 million.

In August 2004, the Group completed the refurbishment of an extended stay hotel -The Pachtuv Palace- located in Prague and transferred this item from properties under development to investment properties; the investments in extended stay hotels also mainly relate to the same building.

Deferred tax liabilities

In accordance with IAS 12, the recognition of deferred tax liabililities on the revaluation of investment properties amounts to EUR 20.8 million (EUR 9.1 million in 2004) on the balance sheet as at December 2005 and it reduced the net result attributable to the Group by EUR 5.8 million (EUR 0.7 million in 2004).

9. Hotels and own-occupied buildings

Hotels and own-occupied buildings	Own-occupied buildings	Prepaid operating leases	Hotels	TOTAL
GROSS AMOUNT				
Balance at 1 January 2004	**5 005**	**837**	**27 048**	**32 890**
Investments / acquisitions	181	1 366	2 391	3 938
Transfer and other movements	-340	113	10 447	10 220
Translation differences	312	133	1 699	2 144
Balance at 31 December 2004	**5 158**	**2 449**	**41 585**	**49 192**
Scope variation	0	0	73 192	73 192
Investments / acquisitions	2 056	427	381	2 864
Disposal	-41	0	0	-41
Transfer and other movements	-118	621	186	689
Translation differences	265	110	2 099	2 474
Balance at 31 December 2005	**7 320**	**3 607**	**117 443**	**128 370**
AMORTIZATION				
Balance at 1 January 2004	**109**	**17**	**0**	**126**
Allowance	439	7	294	740
Transfer and other movements	-78	0	0	-78
Translation differences	7	1	-2	6
Balance at 31 December 2004	**477**	**25**	**292**	**794**
Allowance	65	91	1 383	1 539
Disposal	-12	0	0	-12
Transfer and other movements	-58	-18	40	-36
Translation differences	35	1	15	51
Balance at 31 December 2005	**507**	**99**	**1 730**	**2 336**
NET AMOUNT AT 31 December 2005	**6 813**	**3 508**	**115 713**	**126 034**
Net amount at 31 December 2004	4 681	2 424	41 293	**48 398**

In 2005, the scope variation relates only to the first consolidation of Suncany Hvar. All the assets and liabilities have been valued by Deloitte & Touche Croatia at the time of the acquisition, using the EBITDA and rate per room multiples valuation methods. Please refer to note 7 detailing the business combination accounting on this company.

The investment in Own-occupied buildings relates mainly to the new headquarters in Luxembourg that has been acquired at the end of the year.

The prepaid operating leases relate to one building serving as an extended stay hotel in Bratislava that was acquired in 2004 (with a remaining term of the lease of 27 years) and to the lands on which the Regina hotel and Diana residence are located (with in both cases a remaining term of the lease of 85 years).

In 2004, most investments and transfer from properties under development concern the hotel Le Regina located in Warsaw that was opened to the public at the end of that year. The Luxembourg Plaza in Prague is presently under development and hence not classified under this caption yet.

10. Fixtures and fittings

	Gross amount	Amortization	Net amount
At 1 January 2004	**5 814**	**-2 415**	**3 399**
Increase	3 670	-1 321	2 349
Assets sales	-815	703	-112
Translation difference	312	-146	166
At 31 December 2004	**8 981**	**-3 179**	**5 802**
Increase	3 189	-2 239	950
Assets sales	-269	176	-93
Transfer	500		500
Translation difference	382	-144	238
At 31December 2005	**12 783**	**-5 386**	**7 397**

In 2005, the Group has mainly invested in the new extended stay hotel Diana Residence in Warsaw (EUR 1.1 million) and in the Ofer buildings portfolio in Budapest for EUR 0.7 million.

The main investments of fixtures and fittings in 2004 were realised in Warsaw for the hotel Regina (EUR 1.7 million), in Prague for the extended stay hotel Pachtuv Palace (EUR 1.1 million) and in Bratislava for the extended stay hotel Sulekova. The same year, most sales of fixtures and fittings were realised by IPB (EUR 0.7 million).

11. Properties under development

The caption Properties under development also includes advance payments for EUR 3.3 million (2004 EUR 1.3 million). The rest represents the buildings under construction that have known the following evolution :

	December 2005	December 2004
Opening Balance	**10 803**	**18 805**
New projects and work in progress	16 516	6 935
Finalized projects	-8 841	-14 937
transfer and other movements	2 285	-
Translation differences	838	-
Total	**21 601**	**10 803**

In 2005, the group invested EUR 3.0 million in the finalization of a hospital in Londynska that has been transfered to investment properties with a value of EUR 8.8 million. The other investments relate mainly to the Luxembourg plaza building that will be half dedicated to offices and half to hotel premises. The office part is a 50% joint venture with Trigranit. In the beginning of 2006, Trigranit has sold its share in the joint venture to the Group which sold it subsequently to the Endurance Real Estate Fund for Central Europe at the fair value determined by DTZ.

In 2004, the major part of the investments have been dedicated to the Luxembourg Plaza in Prague (EUR 4.2 million). The same year, two projects have been finalized: the hotel Le Regina in Warsaw (EUR 8.7 million) and the Pachtuv Palace in Prague (EUR 5.0 million).

12. Financial assets

This line mainly includes the investment in the Endurance Real Estate Fund for Central Europe (the “fund”) amounting to EUR 10.5 million. This fund investing in investment properties has been created in 2005 and is managed by the Group (see note 25). The fund prepares consolidated financial statements as at 30 September each year and interim consolidated financial statements as at 31 March. Due to its creation in 2005, the cost of the investment held by the Group in the fund approximates its fair value.

13. Inventories

	December 2005	December 2004
Opening	**31 778**	**39 000**
Transfer with investment property	3 023	-
Net impairments	-1 891	-
Other variations	22 727	-7 222
Total	**55 637**	**31 778**

As at December 2005, an impairment of EUR 1.8 million has been recognised on a development in Hungary. This impairment has been calculated by comparing the DTZ value with the net book value of the project. After the closing, the potential selling price of this project has increased that could lead -depending on the new DTZ valuation- in 2006 to a reversal of that impairment.

14. Trade receivables

	December 2005	December 2004
Trade receivables gross	11 372	29 918
Provision for impairment of receivables	-5 819	-7 773
Total	**5 553**	**22 145**

As the Group has a large number of customers, there is no specific concentration of credit risk with respect to trade receivables apart from the fact that most of them are located in the Czech Republic.

In 2005, the Group (mainly IPB) has recognized a net reversal of impairments on trade receivables of EUR 3.1 million.

15. Cash and cash equivalents

As at December 2005, the cash and cash equivalents consist of short term deposits for EUR 12.8 million (essentially held by Suncani Hvar), cash in bank for EUR 36.1 million (non invested part of the OBSAR Bonds issued in November 2005) and cash in hand for EUR 0.1 million.

16. Held for sale activities

Atronyx kft holding the Orco Business Park building in Budapest, classified as held for sale in 2004, was sold to the Endurance Fund in December 2005 for a total price of EUR 12.4 million generating a non taxable profit of EUR 2.4 million.

17. Minority interests’ transactions

The Group acquired during the second quarter of 2005, most of the minority interest present in the capital of Orco Hotel Group increasing its shareholding to 99%. This acquisition has been paid through the issue of 32,307 new shares of Orco Property Group S.A. for an amount of EUR 1.4 million.

In the first quarter of 2005, the Group has been diluted in the capital of MaMaison Résidences through a capital increase in cash of EUR 4.4 million of MaMaison Résidences S.A. subscribed by the minority shareholder.

18. Borrowings

18.1 Borrowings maturity

The following tables describe the maturity of the Group’s borrowings. For most floating rate borrowings, the Group takes on exposure the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interests costs may increase or decrease as a result of such changes.

In 2005, the non-current financial debts amount to EUR 183.1 million. The difference between the carrying amount and EUR 175.9 million as mentionned in the following table relates to a right linked to the bond with repayable Subscription Warrants (OBSAR) described in the note 18.4 whose fair value as at December 2005 amounts to EUR 7.2 million.

Borrowings

At 31 December 2005	Less than one year	1 to 5 years	More than 5 years	Total
Non-current				
Bonds:	-	**39 378**	**44 986**	**84 364**
Convertible bonds	-	-	21 878	21 878
Exchangeable bonds	-	-	23 108	23 108
Bonds with repayable subscription warrants		39 378	-	39 378
Financial debts		**83 774**	**92 157**	**175 931**
Bank loans :	**-**	78 236	91 200	169 436
Fixed rate	-	14 329	29 534	43 863
Variable rate	-	63 907	61 667	125 573
Other Non-current borrowings	-	5 538	-	5 538
Finance lease liabilities	-	-	956	956
Total	**-**	**123 152**	**137 143**	**260 295**
Current				
Bonds and financial debts				
Bonds	16 700	-	-	16 700
Bank loan fixed rate	6 439	-	-	6 439
Bank loan variable rate	9 070			9 070
Others borrowings	3 491	-	-	3 491
Total	**35 700**	**-**	**-**	**35 700**

At 31 December 2004	Less than one year	1 to 5 years	More than 5 years	Total
Non-current				
Bonds:	-	**250**	**30 579**	**30 829**
Convertible bonds	-	-	30 579	30 579
Bonds	-	250	-	250
Financial debts		**13 931**	**42 724**	**56 655**
Bank loans :	**-**	13 931	41 818	55 749
Fixed rate	-	6 124	21 146	27 270
Variable rate	-	7 807	20 672	28 479
Finance lease liabilities	-	-	906	906
Total	**-**	**14 181**	**73 303**	**87 484**
Current				
Bonds and financial debts				
Bonds	13 767	-	-	13 767
Bank loan fixed rate	12 354	-	-	12 354
Bank loan variable rate	1 025	-	-	1 025
Others borrowings	2 194	-	-	2 194
Total	**29 340**	**-**	**-**	**29 340**

Bank loans include amounts secured by a mortgage on properties and/or a pledge on the shares of the companies benefiting from the loan to the value of EUR 177 million (December 2004 EUR 63.0 million). In general Orco Property Group S.A. has granted its guarantee in favour of the bank for each of the subsidiaries.

The guarantees granted to financial institutions remain fully valid until complete reimbursement of credits. No partial waiver on pledge or mortgage has been scheduled.

The carrying amount of the Group's borrowings is denominated in the following currencies :

	December 2005	December 2004
EUR	253 368	110 723
CZK	31 258	6 101
PLN	1 083	0
SKK	2 246	0
HKR	8 040	0
Total	**295 995**	**116 824**

18.2 Convertible bonds

Within the authorized capital, the Board of Directors decided on September 21, 2004 to issue a convertible bond without preferential subscription rights with the following terms :

Nominal	EUR 32,450,641.20
Number of bonds	1,001,563
Issue price	at par value, EUR 32.40
Redemption price if not converted	111.76% of par at EUR 36.21, i.e. a gross yield-to-maturity of 6.80%
Nominal interest rate	5.5%
Conversion price	EUR 32.40
Conversion ratio	One new share for one bond
Issuance date	22 September 2004
Conversion at the discretion of bondholder	From the issuance date until eight days later. The final redemption date is on 24 December 2011
The issuer's call rights	As of 1 April 2006, i.e. the first day of the 19th month following the issuance date, should Orco Property Group share be at or above the price of EUR 40.50, bondholders who have not converted after a 30-days call notification period will receive, in addition to redemption of principal and interests accrued, a redemption premium allowing them to achieve a gross yield-to-maturity of 8%.

As at 31 December 2004, no bond had been converted. During 2005, 290.613 rights of conversion have been exercised leading to the creation of same amount of new shares.

In the IFRS accounts, the funds raised with this convertible bond have been at issuance divided into a long-term debt component and an equity component. Furthermore, the costs linked to the issuance of the bond are deducted from funds raised. The equity component, classified in other reserves, represents the market value on the date of issue of the call options embedded in the convertible bond. The difference between the debt component and the par value of the bond will be taken in profit and loss accounts using the effective interest method.

Debt component on issue	**30 487**
Interest accumulated in 2004	92
Balance at 31 December 2004	**30 579**
Interest accumulated during the period	280
Conversion rights exercised	-8 981
Balance at 31 December 2005	**21 878**

18.3 Exchangeable bonds in Suncani Hvar shares

The acquisition of Suncani Hvar dd is financed by a private placement of an exchangeable bond issued by the Company under the following terms:

Nominal	EUR 24,169,193.39
Issue price	EUR 26.03 (KN 190)
Issue date	30 June 2005
Nominal interest rate	5.5 %
Exchange at the discretion of bondholder	between 1 July 2010 and 11 June 2012 in Suncani Hvar dd share, one share for one bond.
Repayment date	the non exchanged bonds will be reimbursed in cash on 30 June 2012
ISIN	XS 0223 58 64 20
Listing	Luxembourg stock exchange as from November 2005

As at 31 December 2005, no bond had been exchanged.

In the IFRS accounts, the funds raised with this exchangeable bond have been at issuance divided into a long-term debt component, an equity component and a long term derivative component. Furthermore, the costs linked to the issuance of the bond are deducted from the funds raised. The derivative component (EUR 0.8 million), classified in other current liabilities, represents the market value on the date of issue of the call options embedded in the bond. This derivative will be revalued at its market value at each closing through the income statement. The difference between the debt component and the par value of the bond will be taken in profit and loss accounts using the effective interest method.

Debt component on issue	**23 048**
Interest accumulated during the period	60
Balance at 31 December 2005	**23 108**

18.4 Bonds with Repayable Subscription Warrants ("OBSAR")

Bonds

Nominal	EUR 50,272,605.30
Number of bonds	73,273
Nominal value per bond	EUR 686.10
Issue price per bond	EUR 682.38
Redemption	18 November 2010
Normal Redemption	at par, EUR 686.10 per bond, if the average price quoted over the ten stock exchange trading sessions preceding the Redemption Date, of the products of the closing price of the Orco Property Group S.A. share on the Euronext Paris S.A. Eurolist market and of the Exercise Parity applicable during the said stock exchange sessions is equal to or greater than the Exercise Price of the Redeemable Share Subscription Warrants, at 120% of par, that is EUR 823.32 per Bond, if the average price quoted over the ten stock exchange trading sessions preceding the Redemption Date, of the products of the closing price of the Orco Property Group share on the Euronext Paris S.A. Eurolist market and of the Exercise Parity applicable during the said stock exchange sessions is less than the Exercise Price of the Redeemable Share Subscription warrants.
Early Redemption	Option for the Group to redeem all bonds at 120% of the par value on any Interest Payment Date subject to one month's notice to bearers before the early redemption date.
Nominal interest rate	4.5%
ISIN	FR0010249599
Listing	Euronext

Warrants

Number of warrants	1,099,095 (corresponding to 15 warrants/issued bond)
Exercise ratio	one warrant gives the right to one share
Exercise price	EUR 68.61
Exercise period	18 November 2005 until 18 November 2012
Early repayment	From 19 November 2007 the issuer may reimburse the warrants at EUR 0.01 if the average share price over the last 10 days preceeding 19 November 2007 is higher than EUR 96.05
ISIN	LU0234878881
Listing	Euronext

In the IFRS accounts, the funds raised with this bond have been at issuance divided into a long-term debt component, an equity component and a derivative component. Furthermore, the costs linked to the issuance of the bond are deducted from the funds raised. The equity component (EUR 3.7 million reduced by EUR 1.1 million deferred taxes), classified in other reserves, represents the market value on the date of issue of the subscription warrants embedded in the bond. The derivative component (EUR 5.3 million), classified in non-current financial debts, represents the market value on the date of issue of the bondholder to get redemption premium if the average market price of Orco shares do not reach a certain level before the repayment date. This derivative will be revalued at its market value at each closing through the income statement. The difference between the debt component and the par value of the bond will be taken in profit and loss accounts using the effective interest method.

Debt component on issue	**39 173**
Interest accumulated during the period	205
Balance at 31 December 2005	**39 378**

18.5 Average effective interest rates

	December 2005					December 2004	
	EUR	**CZK**	**SKK**	**PLN**	**HKR**	**EUR**	**CZK**
Bonds	6,33%	-				6,04%	-
Bank borrowings	5,48%	4,68%	4,42%	6,83%	5,40%	5,27%	4,88%

18.6 Undrawn credit facilities

	December 2005	**December 2004**
Expiring within one year	1 065	4 727
Expiring after one year	3 835	21 918
Total	**4 900**	**26 645**

18.7 Minimum lease payments

	2 005 December	**2 004 December**
More than 5 years	**4 032**	**4 002**
Future finance charges on finance leases	-3 076	-3 096
Present value of finance lease liabilities	**956**	**906**

19. Income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes of one entity relate to the same fiscal authority. All deferred taxes are assumed to be recoverable after more than 12 months.

	December 2004	SPV acquisition	Scope variation	Change in income statement	Other movements	Translation differences	December 2005
Intangible assets	5	0	0	0	0	0	5
Tangible assets	-13 081	-6 187	-6 475	-15 621	0	-1 103	-42 467
Financial assets	-90	0	0	0	0	0	-90
Inventories	1 393	-109	0	723	0	83	2 090
Current assets	1 012	0	0	-1 013	0	20	19
Provisions	488	0	0	-415	0	13	86
Long term debts	-369	0	0	-81	-1 104	1	-1 553
Recognized loss carry forward	1 611	741	0	1 382	0	3	3 737
Total Deferred taxes	**-9 031**	**-5 555**	**-6 475**	**-15 025**	**-1 104**	**-983**	**-38 173**
Deferred tax assets	**4 335**						**6 345**
Deferred tax liabilities	**-13 366**						**-44 518**

The income taxes recognised in the income statement amount to EUR 16.1 million (2004: EUR 8.2 million) among which EUR 1.1 million of current income taxes and EUR 15.0 million deferred income taxes. The other movements generated on long term debts come from the deferred income taxes on the share subscription rights embedded in the OBSAR bonds which have been immediately recognised in equity.

SPV acquisition represents the deferred income taxes recognized on the temporary differences between the tax base and the acquisition price of the properties in case of acquisition of properties through the acquisition of companies (share deals). Those acquisitions are not considered as business combinations under IFRS. The deferred tax liability on scope variation represent the deferred tax liabilities on the revaluation to the fair market value of the assets and liabilities of Suncani Hvar dd.

In accordance with IAS 12, the recognition of deferred tax liabililities on the revaluation of investment properties amounts to EUR 20.8 million (EUR 9.1 million in 2004) on the balance sheet as at December 2005 and it reduced the net result attributable to the Group by EUR 5.8 million (EUR 0.7 million in 2004).

20. Earnings per share

	December 2005	December 2004
At the beginning of the period	**4 620 898**	**4 004 157**
Shares issued	4 622 824	4 017 073
Treasury shares	-1 926	-12 916
Weighted average movements	**1 272 684**	**192 917**
Issue of new shares for cash	1 253 592	181 927
Issue of new shares in acquisitions	19 296	-
Treasury shares	-203	10 990
Weighted average outstanding shares for the purpose of calculating the basic earnings per share	**5 893 582**	**4 197 074**
Dilutive potential ordinary shares	**1 299 622**	**2 013 751**
Share subscription rights	392 068	1 012 188
Convertible bond	710 950	1 001 563
Employee stock options	30 664	-
PACEO	165 940	-
Weighted average outstanding shares for the purpose of calculating the diluted earnings per share	**7 193 204**	**6 210 825**
Net profit attributable to the Group	**54 523**	**18 700**
Effect of assumed conversions / exercises	**1 832**	**1 272**
Share subscription rights	346	883
Convertible bond	1 123	389
PACEO	364	-
Net profit attributable to the Group after assumed conversions / exercises	**56 355**	**19 972**
Basic earnings in EUR par share	9,25	4,46
Diluted earnings in EUR par share	7,83	3,22

Basic earnings per share is calculated by dividing the profit attributable to the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2005, the Repayable Subscription Warrants (see note 18.4) are not considered as potential dilutive ordinary shares as per the definition of IAS 33.

21. Equity

21.1 Share capital

	Number of shares	Capital	Share premium
Balance at 1 January 2004	**4 017 073**	**16 470**	**33 440**
Exercise of employee stock options	80 000	328	997
Exercise of Share subscription rights	1 003	4	19
Share private placement	150 000	615	2 985
Acquisition of minority interests	319 984	1 312	7 683
Dividend paid in shares	54 764	225	965
Balance at 31 December 2004	**4 622 824**	**18 954**	**46 089**
Exercise of employee stock options	51 000	209	1 408
Exercise of Share subscription rights	620 120	2 542	11 720
Conversion of convertible bonds	290 613	1 192	8 224
Share private placement	300 000	1 230	11 970
Exercise of PACEOs	834 060	3 420	36 885
Acquisition of minority interests	32 307	132	1 243
Dividend paid in shares	41 654	171	1 425
Balance at 31 December 2005	**6 792 578**	**27 850**	**118 964**

The Extraordinary Shareholders' Meeting of 29 April 2004 renewed the authorization granted by shareholders to the Board of Directors on May 18, 2000, in accordance with article 32-3 (5) of Luxembourg corporate law. The Board of Directors was granted full powers to proceed with the capital increases within the authorized capital of EUR 50,000,000, under the terms and conditions it will set, with the option of eliminating or limiting the shareholders' preferential subscription rights as to the issuance of new shares within the authorized capital.

The Board of Directors has been authorized and empowered to carry out capital increases, in a single operation or in successive tranches, through the issuance of new shares paid up in cash, capital contributions in-kind, transformation of trade receivables, the conversion of convertible bonds into shares or, upon approval of the Annual General Shareholders' Meeting, through the capitalization of earnings or reserves, as well as to set the time and place for the launching of one or a succession of issues, the issuance price, terms and conditions of subscription and payment of new shares. This authorization is valid for a five-year period ending on 29 April 2009.

A total of EUR 27,849,569.80 has been used to date under this authorization. As such, the Board of Directors still has a potential of EUR 22,150,430.20 at its disposal. Considering that all new shares are issued at the par value price of EUR 4.10, a potential total of 5,402,543 new shares may still be created.

21.2 Share subscription rights

The Board of Directors decided, in its meeting on 5 November 2003, to initiate the issue of rights allowing their bearers to subscribe to new shares to be issued by the Company, shareholders having waived their preferential subscription right on the basis of new shares likely to be created following right exercise.

Rights have been granted free of charge to all the shareholders who composed the capital of the Company on the day of issue. One share subscription right has been granted free of charge for one Orco Property Group share held at the end of day 14 November 2003.

Three share subscription rights allow to subscribe to one new share to be issued at the unit price of EUR 23. The exercise period spreads from 17 November 2003 to 16 November 2006 included. At issuance, the maximum number of shares that can be created this way amounts to 1,013,191. The remaining number of rights as at 31 December 2005 amounts to 1,176,204 giving the right to subscribe to 392,068 shares.

21.3 Convertible bonds

See note 18.2

21.4 Repayable Subscription Warrants

See note 18.4

21.5 Employee stock options

A new stock option plan was granted to employees on 2 May 2005 under the following conditions:

Exercise price:	EUR 35 share		
Exercise period:	from 2 May 2005 until 30 April 2010		
Beneficiary:		Orco Holding	45,000
		Arnaud Bricout	20,000
		Steven Davis	20,000
		Nicolas Tommasini	20,000
		Ales Vobruba	20,000
		Gilbert Irondelle	5,000
		Pavel Klimes	5,000
		Dragan Lazukic	5,000
		Andy Smith	5,000

In accordance with IFRS 2 Share-based payments, the total theoretical and non cash cost of EUR 1.4 million has been estimated and accounted for 2005 in the income statement under the Employee benefit caption. This fair value was determined using the Black-Scholes valuation model. The significant input into the model were share price of EUR 38.9 at grant date, exercise price as stated above, risk-free interest rate EURIBOR, dividend increase of 7.5% a year, long term standard deviation of expected share price return of 22%.

As at 31 December 2005 , these employee share options have been taken into account in the diluted earnings per share calculation because their exercise price as defined by IAS 33 is lower than the average market price over the period.

In addition to this new plan, 18,000 options granted to employees before 2004 have been exercised in 2005. As at December 2005, there is no remaining options from former plans granted to employees.

Movements in the number of share options :

	Average exercise price in EUR	Number of options
Outstanding at the beginning of the year	**25,69**	**18 000**
Granted	35,00	150 000
Exercised	31,72	-51 000
Cancelled	35,00	-5 000
Outstanding at the end of the year	**35,00**	**112 000**

The expiry date of the remaining 112,000 options is 30 April 2010.

21.6 PACEO

On 31 March 2005, Orco Property Group S.A. and Société Générale in Paris (SG) have arranged a Step-up Equity Subscription (PACEO: Programme d'Augmentation de Capital par Exercices d'Options). The PACEO has been filed with and approved by the AMF (Autorité des Marchés Financiers) with the visa No. 05-201. It allows Orco Property Group S.A. to issue a maximum of 1 million new shares subscribed on the demand of Orco Property Group S.A. by SG. All subscriptions will be at an issue price of 95% of the share price at the time of execution. As at 31 December 2005, the Company has exercised 834,060 options for a total proceeds of EUR 40,304,752.80.

22. Dividends per share

The dividends paid in 2005 and 2004 were EUR 3.5 million (EUR 0.58 per share) and EUR 1.8 million (EUR 0.39 per share) respectively.

The Board of Directors has decided to propose at the Annual General Meeting of Orco Property Group S.A. the payment of EUR 0.80 per share in respect of 2005. As an event after the balance sheet date, these financial statements do not reflect this dividend proposal that will be accounted for in 2006 as an appropriation of retained earnings.

23. Contingencies

The Group has given guarantees in the ordinary course of business (see note 18).

24. Capital commitments

- Orco Property Group S.A. entered into a Subscription Agreement with the Endurance Real Estate Fund for Central Europe. As at December 2005, the balance still to subscribe amounts to EUR 2.7 million.

- The Group entered into advanced negociations for the acquisition of different assets in :

  - Czech Republic Residential plots of land for a total of EUR 7 million.
  - Hungary Office Building for EUR 18 million.

- Orco Property Group S.A. will fund its subsidiary MaMaison Residences in a range of EUR 4.7 million in order to finance the acquisition of an extended stay hotel in Moscow. This payment is foreseen during the second quarter of 2006.

- As a developper of buildings and residential properties, the Group is committed to finalize the construction of properties in different countries. The commitments for the projects started as at December 2005 amount to EUR 75.7 million.

25. Related party transactions

The global consideration given as employee benefit to the members of the Executive Committee amounted to EUR 1.7 million as at at December 2005 (EUR 1.3 million as at 31 December 2004). Besides, Board Members receive a EUR 500 fee for each board they attend. The Company did not grant any advance or loan to board members nor to members of the Executive Committee and does not finance any pension plan in their favour. The stock options granted to members of the Executive Committee are detailed in note 21.5.

Orco is the sponsor and the fund manager of a Luxembourg regulated close ended investment fund dedicated to institutional investors, the Endurance Real Estate Fund for Central Europe. This fund has opted for the form of a "Fonds Commun de Placement". Besides the Group is the shareholder of the management company of the Fund and has also invested in the Fund directly (see note 12). By the end of 2006, the portion invested by the Group in the Fund will represent 9%.

Orco's remuneration is linked to:

- the placement fee of 1% of the committed funds of the investors
- the management fee of 2% per year calculated on the called subscriptions
- acquisition fee of 1% calculated on the value of the assets bought or sold by the fund.

The investment process foresees that any investment of more than EUR 10 million proposed by the fund manager has first to be approved by the investment committee. This committee is made of a representative of each investor (7 members end of 2005).

26. Events after balance sheet date

- Orco Property Group S.A. bought from Trigranit 50% of the shares of Orco Property a.s. and a receivable from Orco Property a.s. for a total price of EUR 15 million.

- Orco Property Group S.A. sold to the Endurance fund 50% of the shares of Orco Property a.s. and a receivable from Orco Property a.s. for a total price of EUR 16 million.

- Orco Property Group S.A. issued one straight bond of CZK 1,400 million, maturity 2010, interest rate Pribor + 220 bp. This bond issue is listed on the Prague Stock Exchange

- The group finalised partly the acquisitions mentionned in note 24.

27. List of the fully consolidated subsidiaries

Company	Country	Currency	Activity	% shareholding	
				31.12.05	31.12.04
1. Sportovní, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
Americká 1, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Americká 33, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Americká Park, a.s.	Czech Republic	CZK	Extended stay	70,65%	81,38%
AMERICKÁ – ORCO, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Anglická 26, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%
Ariah Ingatlanforgalmazó Kft	Hungary	HUF	Renting	100,00%	-
Belgická – Na Kozačce, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%
B.P. Servis, s.r.o.	Czech Republic	CZK	Renting	100,00%	-
BRNO CENTRUM, s.r.o.	Czech Republic	CZK	Renting	100,00%	-
Budapest Real Estate Investors S.à r.l.	Luxembourg	EUR	Holding	100,00%	-
BYTY PODKOVA, a.s.	Czech Republic	CZK	Development	100,00%	-
CWM 35 Kft	Hungary	HUF	Renting	100,00%	-
Diana Development Sp. z.o.o.	Poland	PLN	Extended stay	70,65%	-
Diezenhoferovy sady, s.r.o.	Czech Republic	CZK	Hotel	99,57%	-
Endurance Real Estate Assets Management Company S.A.	Luxembourg	EUR	Holding	100,00%	-
Etoile d'or S.A.	Luxembourg	EUR	Renting	100,00%	-
IPB Real development a.s.	Czech Republic	CZK	Development	100,00%	100,00%
IPB Real reality, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
IPB Real, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
IPB Real, s.r.o.	Czech Republic	CZK	Development	100,00%	100,00%
Iskolaprojekt 68 Kft	Hungary	HUF	Development	100,00%	100,00%
Izabella 62-64 Kft	Hungary	HUF	Development	100,00%	100,00%
Janáčkovo nábřeží 15, s.r.o.	Czech Republic	CZK	Hotel	99,57%	95,00%
JIHOVÝCHODNÍ MĚSTO, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
Londýnská 26, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Londýnská 39, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%
Londýnská 41, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%
MÁCHOVA – ORCO, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Mamaison Bratislava	Slovakia	SKK	Extended stay	70,65%	81,38%
MaMaison Residences S.A.	Luxembourg	EUR	Extended stay	70,65%	81,38%
Mánesova 28, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Medec 35 Ingatlanfejlesztő Kft	Hungary	HUF	Renting	100,00%	-

Company	Country	Currency	Activity	% shareholding	
				31.12.05	31.12.04
Medec 36 Kft	Hungary	HUF	Renting	100,00%	-
Meder 36 Kft	Hungary	HUF	Renting	100,00%	-
MMR Management, s.r.o.	Czech Republic	CZK	Extended stay	70,65%	81,38%
MMR Russia S.A.	Luxembourg	EUR	Extended stay	70,65%	-
Nad Petruskou, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%
NOVÉ MEDLÁNKY a.s.	Czech Republic	CZK	Development	100,00%	100,00%
ORCO ALFA, s.r.o.	Czech Republic	CZK	Development	100,00%	100,00%
ORCO Alfa, s.r.o.	Slovakia	SKK	Development	100,00%	-
Orco Aparthotel S.A.	Luxembourg	EUR	Extended stay	70,65%	81,38%
Orco Budapest Kereskedelmi Részénytársaság	Hungary	HUF	Development	100,00%	100,00%
Orco Commercial Sp. z.o.o.	Poland	PLN	Development	100,00%	-
Orco Construction Sp. z.o.o.	Poland	PLN	Development	100,00%	-
Orco Croatia S.A.	Luxembourg	EUR	Hotel	100,00%	-
Orco Delta a.s.	Czech Republic	CZK	Development	100,00%	-
ORCO Development, s.r.o.	Slovakia	SKK	Development	100,00%	100,00%
ORCO DEVELOPMENT, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
Orco Development Kft	Hungary	HUF	Development	100,00%	100,00%
Orco Development Sp. z.o.o.	Poland	PLN	Development	100,00%	100,00%
ORCO Estates, s.r.o.	Slovakia	SKK	Development	100,00%	100,00%
ORCO ESTATE, s.r.o.	Czech Republic	CZK	Development	100,00%	100,00%
Orco Germany S.A.	Luxembourg	EUR	Renting	100,00%	100,00%
Orco Hospitality Services Sp. z.o.o.	Poland	PLN	Hotel	99,57%	95,00%
Orco Hotel Collection S.A.	Luxembourg	EUR	Hotel	99,57%	95,00%
Orco Hotel Development Sp. z.o.o.	Poland	PLN	Extended stay	70,65%	81,38%
ORCO HOTEL DEVELOPMENT, a.s.	Czech Republic	CZK	Hotel	99,57%	95,00%
Orco Hotel Group S.A.	Luxembourg	EUR	Hotel	99,57%	95,00%
Orco Hotel Management Kft	Hungary	HUF	Hotel	99,57%	95,00%
ORCO HOTEL MANAGEMENT, s.r.o.	Czech Republic	CZK	Hotel	99,57%	95,00%
Orco Hotel Project Sp. z.o.o.	Poland	PLN	Hotel	99,57%	95,00%
ORCO Hotel Project, a.s.	Czech Republic	CZK	Hotel	99,57%	95,00%
Orco Hotel Rt	Hungary	HUF	Hotel	99,57%	95,00%
ORCO House, s.r.o.	Slovakia	SKK	Development	100,00%	-
Orco Hungary Kft	Hungary	HUF	Development	100,00%	100,00%
ORCO Immobilien GmbH	Germany	EUR	Development	100,00%	-
ORCO INVESTMENT, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
Orco Investment Kft	Hungary	HUF	Development	100,00%	100,00%
Orco Investment Sp. z.o.o.	Poland	PLN	Development	100,00%	-
Orco Poland Sp. z.o.o.	Poland	PLN	Development	100,00%	95,00%
ORCO Prague, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
ORCO Project Management, s.r.o.	Czech Republic	CZK	Development	100,00%	100,00%
Orco ProjectSzervező Rt.	Hungary	HUF	Development	100,00%	100,00%
Orco Project Sp. z.o.o.	Poland	PLN	Development	100,00%	100,00%

Company	Country	Currency	Activity	% shareholding	
				31.12.05	31.12.04
ORCO Project, s.r.o.	Slovakia	SKK	Development	100,00%	-
ORCO Property Management, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Orco Property Sp. z.o.o.	Poland	PLN	Development	100,00%	100,00%
ORCO PROPERTY START, a.s.	Czech Republic	CZK	Hotel	99,57%	95,00%
ORCO REALITY, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
ORCO Residence, s.r.o.	Slovakia	SKK	Development	100,00%	-
Orco Residential Sp. z.o.o.	Poland	PLN	Development	100,00%	-
ORCO Slovakia, s.r.o.	Slovakia	SKK	Development	100,00%	100,00%
ORCO Strategy, a.s.	Czech Republic	CZK	Development	100,00%	100,00%
Orco Strategy Sp. z.o.o.	Poland	PLN	Development	100,00%	100,00%
Orco Trade s.r.o.	Czech Republic	CZK	Development	100,00%	100,00%
Orco Vagyonkeselő Kft	Hungary	HUF	Renting	100,00%	100,00%
ORCO Vinohrady, a.s.	Czech Republic	CZK	Renting	100,00%	100,00%
Orco Vinohrady S.à r.l.	France	EUR	Holding	100,00%	100,00%
Orco Warsaw Sp. z.o.o.	Poland	PLN	Hotel	99,57%	95,00%
Ozrics Kft	Hungary	HUF	Renting	100,00%	-
Pachtův palác, s.r.o.	Czech Republic	CZK	Extended stay	70,65%	81,38%
Central European Real Estate Management S.A.	Luxembourg	EUR	Holding	100,00%	-
Prague Real Estate 2 SA	Luxembourg	EUR	Holding	100,00%	-
Residence Belgická, s.r.o.	Czech Republic	CZK	Extended stay	70,65%	81,38%
Residence Izabella Kft	Hungary	HUF	Extended stay	70,65%	81,38%
RESIDENCE MASARYK, a.s.	Czech Republic	CZK	Extended stay	70,65%	81,38%
Révay 10 Kft	Hungary	HUF	Renting	100,00%	100,00%
Seattle, s.r.o.	Czech Republic	CZK	Development	100,00%	-
SUNČANI HVAR D.D. HVAR	Croatia	HKR	Hotel	47,74%	-
TQE Asset, a.s.	Czech Republic	CZK	Renting	100,00%	-
Yuli Kft	Hungary	HUF	Renting	100,00%	-
Záhřebská 35, s.r.o.	Czech Republic	CZK	Renting	100,00%	100,00%

28. List of the joint ventures

28.1 Kosic S.à r.l.

As at 1 January 2005, Kosic s.r.o. has been split into three entities corresponding to the three phases forecasted of the global Kosic's development project. Those three new entities are Kosic Development s.r.o. (initial one), Sv Faze s.r.o. and Slunecny Vrsek III, s.r.o. The Group has a 50% interest in Kosic S.à r.l, a Luxembourg based holding company which in turn holds 100% of the 3 operational companies.

The following amounts represent the Group's 50% share (50% in 2004) of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005	December 2004
Non-current assets	9	-
Current assets	252	289
Assets	**261**	**289**
Non-current liabilities	-	-
Current liabilities	27	-1 993
Liabilities	**27**	**-1 993**

	December 2005	December 2004
Income	0	3
Expenses	-55	-56
Profit after income tax	**-55**	**-53**

28.2 Kosic Development s.r.o.

The Group has a 50% interest in a joint venture, Kosic Develoment s.r.o., which is one of the three companies active in the development sector resulting from the demerger of Kosic s.r.o. corresponding to the project's phase I in the Czech Republic.The following amounts represent the Group's 50% share (50% in 2004) of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005	December 2004
Non-current assets	463	15
Current assets	7 475	3 628
Assets	**7 937**	**3 643**
Non-current liabilities	1 741	2
Current liabilities	4 231	166
Liabilities	**5 972**	**168**
Income	12	1 871
Expenses	-490	-1 656
Profit after income tax	**-478**	**215**

28.3 SV Faze II s.r.o.

The Group has a 50% interest in a joint venture, SV Faze s.r.o., which is one of the three companies active in the development sector resulting from the demerger of Kosic s.r.o. corresponding to the project's phase II in the Czech Republic.The following amounts represent the Group's 50% share of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005
Non-current assets	2 950
Current assets	1
Assets	**2 951**
Non-current liabilities	1 710
Current liabilities	2
Liabilities	**1 712**

	December 2005
Income	1 040
Expenses	-253
Profit after income tax	**787**

28.4 Slunecny Vrsek III s.r.o.

The Group has a 50% interest in a joint venture, Slunecny Vrsek III s.r.o, which is one of the three companies active in the development sector resulting from the demerger of Kosic s.r.o. corresponding to the project's phase III in the Czech Republic.The following amounts represent the Group's 50% share of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005
Non-current assets	300
Current assets	84
Assets	**384**
Non-current liabilities	-1
Current liabilities	2
Liabilities	**1**
Income	0
Expenses	-2
Profit after income tax	**-2**

28.5 Orco Property a.s.

The Group has 50% interest in a joint venture, Orco Property a.s., which is active in the leasing sector and holds the office part of the Luxembourg Plaza project in the Czech Republic. The following amounts represent the Group's 50% share (50% in 2004) of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005	December 2004
Non-current assets	19 553	5 768
Current assets	706	256
Assets	**20 259**	**6 024**
Non-current liabilities	11 121	2 078
Current liabilities	1 224	1 581
Liabilities	**12 346**	**3 659**

	December 2005	December 2004
Income	6 877	34
Expenses	-1 496	-369
Profit after income tax	**5 381**	**-335**

28.6 Oak Mill

The Group has 50% interest in a joint venture, Oak Mill, which is active in the development sector and holds the Dobovy Mlyn project in the Czech Republic. The following amounts represent the Group's 50% share (50% in 2004) of assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

	December 2005	December 2004
Non-current assets	38	
Current assets	4 712	2 087
Assets	**4 750**	**2 087**
Non-current liabilities	407	836
Current liabilities	2 357	271
Liabilities	**2 764**	**1 107**

	December 2005	December 2004
Income	0	15
Expenses	-85	-24
Profit after income tax	**-85**	**-9**