

ABLON GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS 2009

ABLON Group Limited is a leading real estate owner and developer in Central and Eastern Europe that is listed on the London Stock Exchange's AIM market.

The Group benefits from a vertically integrated structure that enables it to source, acquire, construct, own, lease, service and manage a diverse portfolio of property. While the Group employs a "build and hold" strategy for its commercial properties, it will sell assets for funding requirements or redeployed new opportunities. Residential projects are typically sold once developed.

PORTFOLIO OVERVIEW

- Property Assets:
 - Combined estimated value of €525 million.
- 177,090 square metres of existing and income generating office, retail and logistics assets (at 13 locations) in Budapest and Prague.
- Significant land bank comprising a further 1,273,230 square metres (at 24 locations) in Budapest, Prague, Bucharest, Warsaw and Gdansk to develop as market conditions permit.

FINANCIAL OVERVIEW

- Gross rental income of €17.5 million for the year ended at 31 December 2009, representing a 5.5% increase compared to the same period last year.
- Adjusted net asset value per share of £2.43 at 31 December 2009.
- Pre-tax loss of €30.9 million for the year ended 31 December 2009 primarily due to a decrease in the value of properties due to the economic crisis.
- Shareholders' funds decreased from €239 million at 31 December 2008 to €210 million at 31 December 2009.

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CHAIRMAN'S STATEMENT

As anticipated at the time of its half year results, the Group has continued to witness severe conditions in most Central and Eastern European economies and real estate markets in the second half of 2009. This has resulted in lower valuations for its real estate asset portfolio as well as increased pressure on occupancy rates at rented offices. We do see signs of modest improvements in our markets in Poland and to a lesser extent in Prague, while Budapest remains under pressure. The improvements in the credit markets and some economies will hopefully underpin a turn in our markets but is expected to take some time.

Within that context, Ablon Group has maintained its defensive position to preserve cash. While there has been a slight increase in rental income, vacancy has increased with completions and tenants are under pressure. The completion of the Viva residential project in Prague has made a modest contribution and the revival of this market would help to offset rental pressures.

On the cost side, we continue to defer the majority of developments to focus on cost containment. We have for example decreased administrative costs significantly. That said, our cash position has decreased over the past year in order to pay loan amortization and some necessary capital expenditure. As markets permit we will continue to seek to improve our cash position through capital markets transactions, asset sales, joint ventures or financing of unencumbered assets.

We firmly believe that Ablon Group remains well positioned to benefit from an economic recovery in CEE, thanks to its high quality and well located real estate portfolio as evidenced by the scheduled opening in April 2010 of its 235 room Marriott Courtyard Hotel in the heart of Budapest. Furthermore, the land bank is well located and will provide opportunities for the longer term. A good example of this is the early prospects that our office site in Warsaw brings.

Even with current valuations our balance sheet continues to be strong, even with current valuations, with its relatively low level of gearing. Another thing that has not diminished is the strength of Ablon's team which should enable the Company to meet remaining challenges and take advantage of the eventual improvement in the market.

I would like to take this opportunity to thank all of our shareholders for their support, our employees for their hard work and our very experienced management team for their fine stewardship of the Company during a difficult period in the market.

Dennis R. Twining
Chairman

BUSINESS OVERVIEW

Property Portfolio

As at 31 December 2009, Ablon's portfolio comprised properties at 34 locations in the Central and Eastern Europe, of which there were 15 completed projects and 19 development projects:

- Properties at 19 locations in Budapest, the properties comprised 12 completed projects (including Zöldváros Residential Park which has sold 239 out of 240 flats) and 7 development projects.
- Properties at 6 locations in Prague, of which 3 completed projects and 3 development projects.
- Properties at 6 locations in Bucharest, all for development.
- Property at 3 locations in Poland, all for development.

Operational Review

Budapest

Occupancy Rate

Due to continuing difficult market conditions throughout 2009, the occupancy rate for Ablon's Budapest portfolio decreased by 9% as at 31 December 2009 compared to 31 December 2008. Ablon has completed the second phase of its Airport city project, but the premises remain vacant and this has contributed to about 5% of the decrease in Ablon's occupancy rate in Budapest. The remaining 4% decrease was due to tenants being affected by the recession and leaving some of the Group's other properties. At present, the Company is facing difficulties in leasing its vacant office space in Budapest due to the scale of the economic crisis in Hungary, where supply of office space in Budapest is currently far outstripping demand.

Arbitration Court Update

On 27 November 2009, Ablon's wholly owned subsidiary, Global Center LLC, was informed by its lawyer that a verdict issued by the Arbitration Court Attached to the Hungarian Chamber Of Commerce And Industry obliged the Defendant, BVM Épelem Előregyártó és Szolgáltató Kft ("BVM") to reimburse in 30 days HUF 4,988,000,000 as principal, plus due interest of approximately HUF 3,000,000,000 (approximately 29 million Euros in aggregate). Details of this verdict were published by Ablon on 1 December 2009. On 1 February 2010, the Economic Department of the Budapest Municipal Court rejected a claim filed by BVM to annul a decision made by the Arbitration Court, and decided that the arbitration verdict issued on 27 November 2009 remained valid. Global Center Kft. is therefore following an execution process to collect the verdict amount.

New Development Projects

In December 2007, Ablon signed a 30-year management contract with Marriott to operate the Company's hotel complex at its Europeum project. The mixed-use Europeum development includes a four-star hotel which will have 235 rooms, 5,500 square metres of retail space and 295 parking spaces. The hotel and the parking will be opened for guests from April 15, 2010. The retail part of the project will be opened once optimal occupancy will have been achieved in lease contracts. The total cost of the project is estimated to be €40 million.

In January 2009, the Group completed the construction of the second phase of the Airport City Logistics Park in the southeast of Budapest. The total site includes close to 20,000 square metres of completed logistics area. As at 31 December 2009, the Company had leased 33% of the total completed buildings.

In June 2008, the Group started the construction of the third phase of its BC99 project. Due to continuing difficult market conditions, the Group decided to stop the construction after completing an underground parking area at the site. Construction will recommence when the financing and market environments improve.

In March 2008, the Group completed the acquisition of a 5,400 square metre building in Budapest with the intention of converting it into a 74 bedroom luxury boutique hotel for a total development cost of €11 million. The Group decided to stop its construction after completing the exterior construction works. Construction will recommence when the financing and market environments improve.

Prague

Ablon completed the construction of its Viva residential project in Prague. The project includes 162 apartments over occupying 10,800 square metres. 8 units were delivered to buyers in December 2009. As at 31 December 2009, 47 units had been sold.

Bucharest

The Company decided to stop any further marketing and construction of the first phase of the Sunset residential project in Timisoara blv. in Bucharest until the financial and market environments become more favourable.

Poland

In June 2009, Ablon received a construction permit for its first project in Poland. The plot, a 5,290 square metre plot located in the centre of Warsaw, is within close proximity of the Daewoo / World Trade Tower and the new Hilton Hotel and Residential Towers. The project is situated in one of the most exclusive and highly sought-after locations in central Warsaw. The building permit allows the construction of 13 floors of mixed use space at the site, occupying 17,404 square metres of office space, and 376 square meters of high-end residential units. Construction will commence once the Group finds a sufficient number of tenants and is able to procure the required financing facilities to complete the project.

In July 15, 2009, the Group completed the acquisition of a company that holds a plot on Jerusalemskaya Av. in Warsaw. The plot size is 25,000 square meters and the building rights for offices will be between 50,000 – 60,000 square meters lettable area. The purchase price was offset with a loan that was granted, in December 2007, to a third party that owned the purchased company. No additional cash was paid at the acquisition date. The total off-set loan amount was €8.4 million as at 31 December 2009.

Portfolio summary

The updated list of the Group's projects as at 31 December 2009 is as follows:

Project	Group holding	Project Type	Completed Area (sq. m)	Expected Annualized Gross Rent (€million p.a.) as at 31.12.09	Occupancy rate (%)As at 31.12.09	Under development As at 31.12.09	Future Development sites (sq. m) as at 31.12.09	Valuation (€million) as at 31.12.09
Budapest								
BC. 99	100%	Office	15,900	2.4	81%	0	37,600	
Budafoki	100%	Office	2,600	0.2	73%	0	136,000	
Fogarasi	100%	Office	2,700	0.4	100%	0	0	
M3	100%	Office	17,400	0.5	18%	0	0	
BC. 91	100%	Office	6,700	0.8	70%	0	0	
BC. 30	100%	Office	12,900	2.3	97%	0	0	
Buy-Way Dunakeszi	100%	Retail	21,600	1.1	45%	0	3,700	
Buy-Way Soroksar	100%	Retail	11,900	0.6	51%	0	0	
Zoldvaros	100%	Residential				0	29,100	
Gateway	100%	Office	35,800	5.5	97%	0	0	
Europeum	100%	Hotel/Retail	0			18,700	0	
Airport City	100%	Storage	19,440	0.5	33%		51,450	
Hold	100%	Hotel	0				6,700	
Katona	100%	Hotel	0				6,100	
Nap	100%	Hotel	0	0.1			5,100	
Rossllyn	100%	Hotel	0				5,400	
Erzsebet	100%	Office	0				17,900	
Newage	100%	Office	0				13,700	
Rakoczi	100%	Retail	750		0%			
Total Budapest			147,690	14.4	64%	18,700	312,750	339
Prague								
Palmovka	100%	Office	4,200	0.8	100%	0	0	
Meteor	100%	Office	14,400	1.9	95%	0	5,500	
VIVA Residence	100%	Residential	10,800			0	0	
May House	100%	Office	0			0	7,200	
Kolben	100%	Mixed use	0			0	73,000	
Ritka	100%	Residential	0			0	64,000	
Total Prague			29,400	2.7	96%	0	149,700	93
Bucharest								
Mogosaia	88%	Residential					40,000	
Sunset Res.	88%	Residential					165,000	
Pipera 3H	100%	Mix					100,000	
Pipera 4H	100%	Mix					100,000	
Airport city	100%	Office					264,000	
Vlad Tepes	100%	Office					11,000	
Total Bucharest			0	0		0	680,000	60
Poland								
K.B.P.	100%	Mix	0	0		0	17,780	
Gdansk	51%	Residential	0	0		0	58,000	
Jerusalemska	100%	Office					55,000	
Total Poland							130,780	33
Total Group			177,090	17.1	68%	18,700	1,273,230	525

The above valuations are based on the appraisal reports conducted by GVA Robertson in Budapest, Prague, and Poland, and by King Sturge in Romania dated 31 December 2009. The values are based on residual development approach.

Financial Review

Gross rental income

Gross rental income was €17.5 million for the year ended 31 December 2009, representing an increase of €0.9 million, or 5.5%, from the €16.6 million generated during the year ended 31 December 2008. This increase can be attributed to the higher occupancy of the Gateway project in Budapest and the opening of Airport city project in Budapest in July 2008. These increases were partially offset by increased vacancy on other offices such as M3 and BC91.

Net service charge income

Net service charge income was €0.1 million for the year ended 31 December 2009, compared to an income of €0.2 million generated during the previous year. The decrease is due to a higher vacancy rate for the Company's Budapest office and retail buildings.

Residential sales income

Residential income was €1.2 million for the year ended 31 December 2009, compared to nil at the year ended at 31 December 2008. The income is attributed to the first 8 units delivered to buyers at the Viva Residence project in Prague.

Residential cost of sales

Residential cost of sales was €0.8 million for the year ended at 31 December 2009, compared to nil at the year ended at 31 December 2008. The cost of sales is attributed to the first 8 units delivered to buyers at Viva Residence project in Prague.

Net (loss) / gain on fair value adjustment of investment property

Net loss on the fair value adjustment of investment property was €16.6 million for the year ended 31 December 2009, from a €32.6 million loss generated during the year ended 31 December 2008. Revaluation gains are mainly impacted by the completion of investment properties projects, or due to an increase/decrease in the value of Ablon's existing portfolio. The main reason for the 2009 revaluation losses is the decrease in the properties' values due to the global economic crisis, which is reflected in much higher than expected exit yields and higher discount rates, resulting in a lower valuation.

Impairment of goodwill

In the year ended 31 December 2009 there was no impairment of goodwill, compared to a €3.7 million loss incurred during the year ended 31 December 2008, as a result of adjusting the purchasing cost of the company that owns Ablon's Warsaw development to market value.

Impairment of inventory

Impairment of inventory for the year ended 31 December 2009 was €8.2 million, as a result of market value adjustments to plots held by the company in Romania.

Impairment of Property plant and equipment

Impairment of property plant and equipment for the year ended 31 December 2009 was €4.0 million, as a result of market value adjustments to the hotel segment of the Europeum project.

Sales and marketing expenses

Sales and marketing expenses were €0.7 million for the year ended 31 December 2009, a decrease of €0.6 million, or 46%, from €1.3 million at the year ended 31 December 2008. The decrease is mainly due to the temporary termination of marketing activities in Romania, and decreases in commissions paid to external brokers for leasing office space.

Administrative expenses

Administrative expenses were €5.2 million for the year ended 31 December 2009, a decrease of €3.3 million or 39% from the €8.5 million spent during the year ended 31 December 2008. The €3.3 million decrease consisted of €1.4 million spent on stock options and bonus shares granted to employees during the IPO process and for the year 2007, and a decrease of €1.0 million in legal, audit and advisory fees. About €0.9 million was saved on wages, offices rented by the Group, traveling expenses and other expenses.

Net Financing income / (expense)

Net financing expense was €14.2 million for the year ended 31 December 2009, a decrease of €9.9 million or 41%, compared to an expense of €24.1 million for the year ended 31 December 2008. The decrease in financial expenses is primarily due to the much lower depreciation of local currencies in Hungary and Romania compared to 2008. The Group had €5.5 million foreign exchange losses in the year ended at 31 December 2009, compared to €14.0 million foreign exchange losses for the year ended 31 December 2008.

Current Income Tax

Current income tax was €0.2 million for the year ended 31 December 2009, an increase of €0.1 million, from €0.1 million for the year ended 31 December 2008.

Deferred Income Tax

Deferred income tax decreased by €2.1 million from a €7.2 million income for the year ended 31 December 2008 to an income of €5.1 million for the year ended 31 December 2009. Deferred income tax decreased due to lower revaluation losses.

Balance Sheet Overview

Investment property

Investment property decreased in value by €22.9 million, to €379.8 million as at 31 December 2009, from €402.7 million as at 31 December 2008. This decrease was primarily due to valuation losses of €16.6 million in the year 2009 and €7.2 million exchange rate negative impact.

Property plant and equipment

Property plant and equipment increased by €19.9 million from €10.3 million at 31 December 2008 to €30.2 million at 31 December 2009. The increase is due to a €23.9 million reclassification of the part of the Europeum project, which includes a 235 room Marriott Courtyard hotel. This amount was reduced by a €4 million impairment.

Long term inventory

Long term inventory decreased by €6.7 million from €60.0 million at 31 December 2008 to €53.3 million at 31 December 2009. The decrease is due to an adjustment made to the market value of the plots held by the Group in Romania.

Current assets

Current assets include inventories (in particular, property intended for sale), current receivables (rent receivables, receivables from property sales, and receivables from shareholders) and other assets, bank balances and cash. Total current assets decreased by €8.0 million from €47.8 million at 31 December 2008 to €39.8 million at 31 December 2009. The decrease was primarily due to a €10.5 million decrease in cash and financial securities as a result of amortization of loans (€3.7 million onetime payment to cure LTV covenant).

Non-Current Liabilities

Non-current liabilities include long-term borrowings from commercial banks and shareholders, as well as deferred tax liabilities for future tax obligations. Total non-current liabilities decreased by €22.9 million from €233.8 million as at 31 December 2008 to €210.9 million as at 31 December 2009. This was primarily due to a €17.3 million decrease on long term loans, which also includes a one time repayment of €3.7 million as part of a long term loan to bring an LTV covenant back into compliance. The second reason is a €5.2 million decrease in deferred tax liability, due to revaluation losses.

Current Liabilities

Current liabilities increased by €26.4 million from €57.5 million at 31 December 2008 to €83.9 million at 31 December 2009. The increase was primarily due to an increase of €30.1 million in short term loans, caused by the granting of 12 month extensions on loans that matured during the current reporting period and by the natural conversion of long term loans to short term loans, within twelve months of their date of maturity. Total current liabilities were offset by €3.8 million due to a decrease in trade and other payables.

Liquidity and capital resources

The Group's liquidity and capital resources come from operations, rental income and the sale of apartments. The Group finances its development activity with bank loans. Typically, project finance covers the three year duration of the construction, and after the construction completion, the loan is usually extended to a long term loan of between 12-15 years. In today's environment the banks are reluctant to agree to such an extension, but Ablon has been successful securing a short term renewal.

The Company's loan to value ratio was 47% at 31 December 2009, an increase of 8% from 31 December 2008. The increase is due to new loans taken for the construction of the Europeum and Airport City projects in Budapest, and the Viva Residence project in Prague, and a valuation decrease.

Due to the unprecedented global economic downturn that has had a particularly severe impact on the economies of CEE countries where Ablon operates, the Company has experienced difficulties in applying for new loans in order to finance the construction of new projects. Apart from Poland, there are no early signs of improvement in the banking sector. For the present time therefore, the Company is not in a position to execute its development plan until the banking sector improves and a sufficient amount of finance can be procured.

Even though the Company managed to prolong the expiring loans in 2009, if the economic downturn does not recede, the Company may also face problems in renewing certain short term loans that mature in the coming year. That said, the Group does have 10 properties with a book value of €83 million with no debt or mortgage costs. There are five loans with LTV and ISC covenants. One has an 80% LTV covenant and based on a recent valuation the Group repaid €3.7 million in April 2009 to bring it into compliance. Regarding this loan, the Company is currently in breach of ISC covenant, and in order to cure the breach, the bank has asked the subsidiaries involved, to deposit all the excess cash flow into a special reserve account. Two of the other loans have a 75% LTV requirement and based on the latest valuations, the Company is comfortably within that covenant. A remaining loan has a 71% LTV covenant, but a valuation is not required until one year after its completion in the beginning of 2010. The Company is doing all it can to increase liquidity, by marketing properties for sale, applying for new loans and by cutting expenses across the business.

NAV

The Company's real estate assets were valued on 31 December 2009 at €525 million (for its share) by external independent appraisers (GVA and King Sturge), in accordance with International Valuation Standards. The Company revalues its assets on an annual basis, on 31 December. The following table demonstrates the calculation of Adjusted Net Asset Value based on the GVA and King Sturge valuation report and the Company's financial statements as at 31 December 2009:

	€ Million	
	Dec 31, 2009	Dec 31, 2008
Shareholders' equity	210.2	238.7
Valuation Adjustments 1	48.3	111.2
Deferred Tax Liability	34.9	40.1
Minority rights	-0.6	-0.9
Total adjusted net asset value	292.8	389.1
NAV per share €	2.68	3.57
NAV per share £	2.43 (€/£ = 1.1)	3.27 (€/£ = 1.09)

The decrease in the NAV is primarily due to 2009 losses and further depreciation in some of the Group's asset values.

Tax changes

At the end of June 2009, new tax laws were approved by the Hungarian parliament. The changes include new laws on withholding tax on interest and management fees to non tax treaty countries of 30% effective from January 1st, 2010. These changes will increase the Group's future tax payments. There is a new transfer tax on the acquisition of project companies holding real estate, so future acquisitions will cost appr. 6% more for the Company.

Dividend Policy

As explained in the Company's Admission Document, the Company has adopted a dividend policy that will reflect long-term earnings and cash flow potential while at the same time maintaining both prudent dividend cover and adequate capital resources within the business.

As a result of prevailing continued uncertainty in the economic outlook of Ablon's markets, the Company's Board of Directors has decided it would not be prudent to recommend the payment of a dividend for the current year.

Ablon has taken this step to support the Company's initiatives to preserve cash during the current challenging market environment. The Company's Management and Board of Directors believe that shareholders' interests will be better served by retaining its earnings to improve the Company's working capital position. The Company cannot at this stage indicate when it will pay its next dividend.

DIRECTORS AND REGISTERED OFFICE

Dennis R. Twining

Born in 1941, was appointed as Chairman of the Board on 2 January 2007. Currently Mr. Twining serves as a consultant to Invesco Asset management and chairman of the INVESCO Real Estate Hotel fund.

Prior to INVESCO, from 1994 until 1999, Mr. Twining was an executive director at Lazard Brothers, an international financial advisory and asset management firm. Past non-executive directorships include Green Property Plc (2000-2002) and UNP International (1994-1999). Mr. Twining has a BSE from the University of Michigan and an MBA from New York University.

Uri Heller

Born in 1948, founded the Group in 1993 and has served as a director of the Group since 1994. Mr. Heller was appointed as a Director on 16 October 2006. Prior to joining the Group, Mr. Heller was managing director for Orlando Ltd. / Danly Investments Ltd., an investment company. From 1990 to 1994, Mr. Heller was the General Manager of the Danel Group, a residential real estate development company in Israel.

Mr. Heller has spent more than 10 years developing his expertise in property investment and property development in Central and Eastern Europe, specializing in Hungary and the Czech Republic. Mr. Heller studied engineering in Israel and is a member of the Israeli Engineering Association.

Gerald Williams

Born in 1952, was appointed as a Non-Executive Director of the Company on 2 January 2007. Mr. Williams also serves as a non-executive director of the Lewis Charles Sofia Property Fund and of Peel Holding. Since October 2001, he has served as the Chief Executive Officer of the Bachmann Trust Company and in 2002 was appointed as the Chief Executive of the Bachmann Group, the largest independent fiduciary company in the Channel Islands and a leading provider of trust and company management services.

Prior to joining the Bachmann Group, Mr. Williams was head of Private Banking at Coutts Offshore Private Bank between 1999 and 2001 and a director of NatWest Offshore Limited. He was previously Managing Director of Coutts (Cayman) Limited and marketing manager for the Coutts group in the Caribbean and has held a number of other positions within Coutts offshore. Mr. Williams holds an ACIB Trust Diploma (and is an Associate of the Chartered Institute of Banking).

Michael Alexander Borrelli

Born in 1956, initially studied medicine and then qualified as a chartered accountant with Deloitte, Haskins & Sells, London in 1982. He has subsequently been active within the investment banking sector and has acted on a wide variety of corporate transactions in a senior role for over 20 years, including flotations, takeovers, mergers and acquisitions for private and quoted companies on the Official List, AIM and PLUS. He is currently a non-executive director of Capcon Holdings plc (on AIM).

Adrienn Lovro

Born in 1970 has extensive experience of the real estate industry, having worked in property development since 1993. A Hungarian national, Mrs. Lovro joined Ablon Group in 1996 and has been Managing Director of Ablon Kft. Budapest since then. In addition, since 2007, Adrienn Lovro has been Country Manager for Hungary and Deputy CEO of Ablon Group Limited. In her role, she is fully responsible for the Hungarian property portfolio of the Group. Mrs. Lovro graduated from Corvinus University Budapest (Budapest University of Economic Sciences) in 1993 with a BA in Finance.

Company Secretary

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CORPORATE GOVERNANCE REPORT

The Board places great emphasis on sound corporate governance. As a Guernsey incorporated company, under Guernsey law the Company is not subject to a compulsory code of corporate governance in Guernsey. Nonetheless, the Board recognizes that it is in the best interests of the Company to comply with those principles of corporate governance contained in the Combined Code which are appropriate for a company of its size and to support high standards of corporate governance. The Combined Code recommends that the board of directors of a UK public company should include a balance of executive and non-executive directors (and in particular non-executive directors), such that no individual or small group of individuals can dominate the board's decision-making. The Combined Code further recommends that at least half of the board, excluding the Chairman, should comprise non-executive directors determined by the board to be independent.

The Company has five Directors, three of whom (including the Chairman) are considered by the Board to be independent. As a result, the Directors consider that there is a satisfactory balance of decision-making power on the Board in line with the Combined Code. The Company has not nominated a senior independent director.

The Company has put in place procedures to comply with the internal control aspects of the Combined Code. In addition, the Company has adopted, with effect from Admission, a share dealing code for the members of the Board and certain employees which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealings during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance with such code by members of the Board and any relevant employees.

The Board has established an audit and valuation committee and a remuneration committee with the following roles within the Group:

Audit and Valuation Committee

The audit and valuation committee is chaired by Mr. Michael Alexander Borrelli, and its two other members are Mr. Twining and Mr. Williams. Only Non-Executive Directors serve on the committee and members of the committee have no links with the Company's external auditors and are independent of the Company's management. The audit and valuation committee meets not less than three times a year and meet with the external auditors at least once a year without the Executive Directors present.

The audit and valuation committee is responsible for making recommendations to the Board on the appointment of the external auditors and their remuneration. The committee considers the nature, scope and results of the auditors' work and reviews (and reserves the right to approve) any non-audit services that are to be provided by the external auditors. It receives and reviews reports from management and the Company's auditors relating to the Company's annual report and accounts. The committee focuses particularly on compliance with legal requirements, accounting standards and the AIM Rules and ensuring that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

In addition, the audit and valuation committee defines the valuation policies and procedures for the Group's properties to ensure that each property is internally valued on an objective basis, monitor and manage such policies and procedures, recommend the selection of external valuers and report to the Board on the success of the valuation procedures.

Remuneration Committee

The remuneration committee is chaired by Mr. Twining and its other member is Mr. Williams. Only Non-Executive Directors serve on the committee and the members of the committee are independent of the Company's management. The committee, which normally meets at least once a year, have responsibility for making recommendations to the Board on the Company's policy for remuneration of senior executives, for reviewing the performance of executive Directors and Senior Management and for determining, within agreed terms of reference, specific remuneration packages for each of the executive Directors and members of Senior Management, including pension rights, any compensation payments and the implementation of executive incentive schemes. The Board also intends for the remuneration committee to administer the long-term incentive plan, when adopted. Compensation for non-executive Directors shall be a matter for the Board as a whole. In accordance with the committee's terms of reference, no Director is able to participate in discussions relating to his or her own terms and conditions of service or remuneration.

The Board has not established a nomination committee and any decisions as to appointment or removal of a director shall be a matter for the Board as a whole.



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Independent auditors' report

To the members of Ablon Group Ltd.

We have audited the financial statements (the "financial statements") of Ablon Group Ltd. (the "Company") for the year ended 31 December 2009 which comprise Consolidated statement of financial position as at 31 December 2009, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. These financial statements have been prepared under International Financial Reporting Standards as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

The directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with International Financial Reporting Standards as adopted by the EU and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 9 of the Directors' Report.

Auditor's Responsibility

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with International Financial Reporting Standards as adopted by the EU and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by



fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the consolidated financial position of the Ablon Group Ltd. as at 31 December 2009, and of its (consolidated) financial performance and its (consolidated) cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU;
- comply with The Companies (Guernsey) Law, 2008.

Budapest, 15 March 2010

KPMG Hungária Kft.

Gábor Agócs
Partner

Consolidated statement of financial position

As at 31 December

In thousands of euro

	Note	2009	2008	2007
ASSETS				
Non-current assets				
Investment property	7	379 840	402 708	394 503
Property, plant and equipment	8	30 165	10 295	1 299
Long term loans	9	0	8 375	8 807
Deferred tax assets	25	1 886	1 024	132
Long term inventory	10	53 284	59 950	0
Total non-current assets		465 175	482 352	404 741
Current assets				
Inventories	10	13 473	9 825	57 991
Trade and other receivables	11	4 300	5 423	9 651
Investment in securities	12	0	2 510	51 144
Cash and cash equivalents	13	22 046	29 999	27 786
Total current assets		39 819	47 757	146 572
TOTAL ASSETS		504 994	530 109	551 313
EQUITY				
Capital and reserves				
Share capital	14	1 096	1 089	1 089
Treasury shares	14	(68)	(16)	0
Translation reserve		(7 568)	(4 414)	178
Share based payment reserve	15	1 834	2 975	875
Share premium		257 727	255 893	255 893
Retained earnings		(42 794)	(16 790)	38 055
Total equity attributable to the equity holders of the parent		210 227	238 737	296 090
Non-controlling interest		0	0	0
TOTAL EQUITY		210 227	238 737	296 090
LIABILITIES				
Non-current liabilities				
Borrowings	16	174 756	192 090	157 393
Deferred tax liability	25	34 868	40 115	45 745
Other non-current liabilities	17	1 238	1 636	2 165
Total non-current liabilities		210 862	233 841	205 303
Current liabilities				
Borrowings	16	69 452	39 299	35 100
Trade and other payables	18	14 394	18 210	14 663
Current income tax liabilities	25	59	22	157
Total current liabilities		83 905	57 531	49 920
TOTAL LIABILITIES		294 767	291 372	255 223
TOTAL EQUITY AND LIABILITIES		504 994	530 109	551 313

Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of euro

	Note	2009	2008
Revenue	21	25 323	23 916
Cost of sales	21	(7 310)	(7 230)
Gross profit		18 013	16 686
Net gain / (loss) from fair value adjustment on investment property	7	(16 588)	(32 579)
Impairment of inventory	10	(8 166)	(3 447)
Impairment of goodwill		0	(3 699)
Impairment of property, plant and equipment	8	(4 015)	0
Selling and marketing costs		(702)	(1 309)
Administrative expenses	22	(5 187)	(8 461)
Other income	23	333	500
Other expenses	23	(327)	(411)
Net operating profit / (loss)		(16 639)	(32 720)
Finance income	24	3 680	3 159
Finance expenses	24	(17 928)	(27 289)
Net finance income / (expenses)		(14 248)	(24 130)
Profit / (loss) before income tax		(30 887)	(56 850)
Current tax	25	(216)	(108)
Deferred tax	25	5 099	7 179
Total income tax (expenses) / income		4 883	7 071
Profit / (loss) for the period		(26 004)	(49 779)
Other comprehensive income			
Foreign currency translation differences		(3 154)	(4 592)
Share-based payment reserve	15	700	2 100
Income tax on other comprehensive income	25	0	0
Other comprehensive income for the period, net of income tax		(2 454)	(2 492)
Total comprehensive income for the period		(28 458)	(52 271)
Profit attributable to:			
The owners of the Company		(26 004)	(49 779)
Non-controlling interest		0	0
Profit for the period		(26 004)	(49 779)
Total comprehensive income attributable to:			
The owners of the Company		(28 458)	(52 271)
Non-controlling interest		0	0
Total comprehensive income for the period		(28 458)	(52 271)
Earnings per share			
Basic earnings per share (euro)	26	(0.24)	(0.46)
Diluted earnings per share (euro)	26	(0.24)	(0.46)

Consolidated statement of changes in equity

For the year ended 31 December

in thousands of Euros

	Attributable to equity holders of the Company						Total attributable to equity holders of the Group	Non-controlling interest	Total equity
	Share capital	Treasury shares	Retained earnings	Share premium	Share based payment reserve	Translation reserve			
Balance at 1 January 2008	1 089	0	38 055	255 893	875	178	296 090	0	296 090
Shares cancelled							0		0
Shares issued							0		0
Capital contribution by shareholders net of floating costs							0		0
Cash paid to acquire Treasury shares		(16)					(16)		(16)
Dividend payment to shareholders			(5 066)				(5 066)		(5 066)
Minority share purchased							0		0
<i>Subtotal: Capital transactions with shareholders</i>	0	(16)	(5 066)	0	0	0	(5 082)	0	(5 082)
Total comprehensive income for the period			(49 779)		2 100	(4 592)	(52 271)	0	(52 271)
Balance at 31 December 2008	1 089	(16)	(16 790)	255 893	2 975	(4 414)	238 737	0	238 737
Balance at 1 January 2009	1 089	(16)	(16 790)	255 893	2 975	(4 414)	238 737	0	238 737
Shares cancelled							0		0
Shares issued	7			1 834	(1 841)		0		0
Capital contribution by shareholders net of floating costs							0		0
Cash paid to acquire Treasury shares		(52)					(52)		(52)
Dividend payment to shareholders			0				0		0
Minority share purchased							0		0
<i>Subtotal: Capital transactions with shareholders</i>	7	(52)	0	1 834	(1 841)	0	(52)	0	(52)
Total comprehensive income for the period			(26 004)		700	(3 154)	(28 458)	0	(28 458)
Balance at 31 December 2009	1 096	(68)	(42 794)	257 727	1 834	(7 568)	210 227	0	210 227

Consolidated statement of cash flows

For the year ended 31 December

In thousands of euro

	Note	2009	2008
Cash flows from operating activities			
Profit for the period		(26 004)	(49 779)
Adjustments for:			
- Income tax expense	25	(4 883)	(7 071)
- Depreciation of property, plant and equipment	8	281	256
- (Gain) or loss on sale of property, plant and equipment	8	66	-
- Foreign exchange (gain) or loss on translation to functional currency		6 956	12 441
- Change in fair value of investment property	7	16 588	32 579
- Impairment loss on PPE		4 015	-
- Impairment loss on Inventory		9 255	-
- Interest income	24	(714)	(1 691)
- Interest expenses	24	8 960	10 345
- Goodwill impairment		-	3 699
- Cost of share based payments	15	700	2 100
Change in inventories	10	(6 702)	(7 681)
Change in trade and other receivables	11	1 122	4 234
Change in trade and other payables	18	(3 816)	3 547
Change in other non-current liabilities	17	(1 407)	(2 265)
Interest paid		(10 087)	(13 857)
Income taxes paid		(179)	(242)
Net cash (used in) from operating activities		(5 849)	(13 385)
Cash flows from investing activities			
Interest received		714	1 691
Proceeds from sale of investments		-	-
Addition to investment property	7	(17 477)	(43 328)
Acquisition of property, plant and equipment	8	(698)	(7 853)
Acquisition of subsidiaries, net of cash acquired		-	(13 871)
Sale or (purchase) of financial securities		2 510	48 634
Net cash used in investing activities		(14 951)	(14 727)
Cash flows from financing activities			
Proceeds from borrowings		23 559	48 569
Repayment of borrowings		(10 740)	(13 363)
Repurchase of treasury shares		(52)	(16)
Dividend paid		-	(5 066)
Net cash from (used in) financing activities		12 767	30 124
Net increase / (decrease) in cash and cash equivalents		(8 033)	2 012
Cash and cash equivalents at 1 January	13	29 999	27 786
Effect of exchange rate fluctuations on cash held		80	201
Cash and cash equivalents at 31 December	13	22 046	29 999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. Reporting Entity

ABLON Group Ltd (hereinafter “the Company”) is a company domiciled in Guernsey. The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

The Company is listed on the London AIM exchange. The Group is managed from Guernsey, and the official address of its headquarter is GY1 4HQ Frances House, Sir William Place, St Peter Port, Guernsey.

The Group’s primary activity is to purchase, develop, rent, hold and sell real estates with a real estate portfolio mainly located in Central and Eastern Europe.

The Group entities are limited liability companies incorporated and domiciled in Hungary, the Czech Republic, Romania, Poland, Croatia and Cyprus as listed below:

Name of entity	Controlling Shareholders share	Country of incorporation
AB-GR NEKRETNINE d.o.o.	100%	Croatia
ABLON Bucharest Real Estates Development S.R.L	100%	Romania
ABLON GROUP d.o.o.	100%	Croatia
ABLON Kft.	100%	Hungary
ABLON s.r.o.	100%	Czech Republic
ABLON Sp. z o.o.	100%	Poland
Airport City Kft.	100%	Hungary
Airport City s.r.o.	100%	Czech Republic
ALAMONDO LIMITED	100%	Cyprus
Avacero Ltd.	100%	Cyprus
AVIDANO LIMITED	100%	Cyprus
B.C.P. Kft.	100%	Hungary
BC 2000 s.r.o.	100%	Czech Republic
Bluebeat Ltd.	100%	Cyprus
BREGOVA LIMITED	100%	Cyprus
Bright Site Kft.	100%	Hungary
CD Property s.r.o.	100%	Czech Republic
Century City Kft.	100%	Hungary
Cymanco Ltd.	100%	Cyprus
DERISA LIMITED	100%	Cyprus
DH Est-Europe Real Estate SRL	100%	Romania
DORESTO LIMITED	100%	Cyprus
Duna Office Center Kft.	100%	Hungary
ES Bucharest Development S.R.L.	100%	Romania
ES Bucharest Properties S.R.L.	100%	Romania
ES Hospitality S.R.L.	100%	Romania
First Chance Kft.	100%	Hungary
First Site Kft.	100%	Hungary
Future Field Kft.	100%	Hungary
GARET Investments Sp. z.o.o.	100%	Poland
Global Center Kft.	100%	Hungary
Global Development Kft.	100%	Hungary

Global Estates Kft.	100%	Hungary
Global Immo Kft.	100%	Hungary
Global Investment Kft.	100%	Hungary
Global Management Kft.	100%	Hungary
Global Properties Kft.	100%	Hungary
GOMENDO LIMITED	100%	Cyprus
GORANDA LIMITED	100%	Cyprus
HD Investment s.r.o.	100%	Czech Republic
Hotel Rosslyn Kft.	100%	Hungary
ICL 1 Budapest Kft.	100%	Hungary
Insite Kft.	100%	Hungary
ISTAFIA LIMITED	100%	Cyprus
JONVERO LIMITED	100%	Cyprus
LERIEGOS LIMITED	100%	Cyprus
LN Est-Europe Development SRL	100%	Romania
MESARGOSA LIMITED	100%	Cyprus
MH Bucharest Development S.R.L	88%	Romania
MH Bucharest Properties S.R.L	88%	Romania
Mor Eden Sp. z.o.o. (from Januar 2008, see Note 10)	100%	Poland
MQM Czech s.r.o.	100%	Czech Republic
New Field Kft.	100%	Hungary
New Sites Kft.	100%	Hungary
OSMANIA LIMITED	100%	Cyprus
Polygon BC s.r.o.	100%	Czech Republic
PRINGIPO LIMITED	100%	Cyprus
RSL Est-Europe Properties SRL	100%	Romania
RSL Real Estate Development S.R.L.	100%	Romania
SHAHEDA LIMITED	100%	Cyprus
SPH Development Sp. z o.o.	51%	Poland
SPH Properties Sp. z o.o.	100%	Poland
STRIPMALL Management Kft.	100%	Hungary
Szolgáltatóház Kft.	100%	Hungary
TUNELIA LIMITED	100%	Cyprus
Volanti Ltd.	100%	Cyprus
YZ Holding spol. s.r.o.	100%	Czech Republic

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and are in compliance with The Companies (Guernsey) Law, 2008.

These financial statements are not intended to be used for statutory filing purposes.

These consolidated financial statements were authorised for issue by the Board of Directors on the 15th of March, 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- investment property is measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

The methods used to measure fair values are discussed further in note 3 (c) (ii) in case of financial instruments and in note 3 (e) (iv) in case of investment property.

The financial statements are prepared based on going concern assumption. The management constantly monitors the Group's financial position and believes that cash inflows are sufficient to cover the expected cash outflows in the next 12 months. The loans of the subsidiaries, except one case, do not have collaterals influencing Ablon Group Ltd. itself, so even if a subsidiary may cease to be in going concern status it does not have an effect on the going concern status of the Group.

(c) Functional and presentation currency

The functional currencies of the Group's entities are the currencies of the primary economic environment in which the entities operate. The following functional currencies are used: Hungarian Forint (HUF) in Hungary, Czech Crowns (CZK) in Czech Republic, Polish Zloty (PLN) in Poland, Romanian Lei (RON) in Romania, Croatian Kune (HRK) in Croatia and euro (EUR) in Cyprus.

The consolidated financial statements are presented in euro, which is the Group's presentation currency. All information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in Note 4.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

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

The Group early adopted IFRS 3 *Business Combinations (Revised 2008)* effective for annual periods on or after 1 July 2009. The Group also early adopted the amendments to IAS 27 made in 2008 in paragraphs 4, 18, 19, 26–37 and 41(e) and (f) for annual periods beginning on or after 1 July 2009. No business combination were effected during the period by the early adoption of these standards.

The acquisition method of accounting is used to account for the acquisition of subsidiaries according to IFRS 3 *Business Combinations*. As of the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. The consideration transferred in a business combination is measured at the acquisition-date fair values of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued. Acquisition-related costs are accounted for as expenses in the periods in which they are incurred except for costs to issue debt or equity securities which are recognised as transaction costs according to IAS 32 and IAS 39.

Any excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in case of a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill.

If the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree (a bargain purchase), the difference is recognised in profit or loss on the acquisition date after reassessing the correct identification of the assets acquired and the liabilities assumed.

(ii) Transactions eliminated on consolidation

Intra-group transactions, balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange gains or losses arising on the settlement of such transactions and on the retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale instruments, which are recognised directly in other comprehensive income.

(ii) Foreign operations

The assets and liabilities, including goodwill and fair value adjustments arising on acquisition, income and expenses of foreign operations (none of them operates in hyperinflationary economies) are translated to euro as follows:

- assets and liabilities are translated at exchange rates at the reporting date;
- income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income.

The exchange rates used for the translation are the foreign exchange rates used by each subsidiary for foreign currency transactions and incorporated in their own accounting policy.

(c) Financial instruments

Financial assets comprise investments in equity and debt securities, trade receivables, and cash and cash equivalents. Financial liabilities include borrowings, other non-current liabilities, and trade payables.

(i) Recognition and initial measurement

All financial instruments are initially recognised in the Group's statement of financial position on trade date when the Group enters into contractual agreements with counterparties.

Financial assets and liabilities are recognised initially at fair value plus, except for instruments measured at fair value through profit or loss, any directly attributable transaction costs. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received)

(ii) Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with banks. Cash equivalents are carried at amortised cost in the statement of financial position.

Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

Investments in securities are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves and exchange rates.

Loans and receivables

Loans and receivables, such as trade receivables and loans, are measured at amortised cost using the effective interest rate method, less any impairment losses. Accounting for impairment losses of financial assets carried at amortised cost is discussed in Note 3 (i) (ii).

Financial liabilities

Financial liabilities, such as borrowings, other non-current liabilities and trade payables, are measured at amortised cost using the effective interest rate 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.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense. See also Note 3 (f).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income/other expense” in statement of comprehensive income.

(ii) Depreciation

Depreciation, based on a component approach, is recognised in profit or loss on a straight-line basis over the asset’s estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows

– Land	Indefinite
– Buildings	20 years
– Vehicles	5 years
– Fixtures and fittings	7 years
– IT equipment	3 years
– Other equipment	7 years

Residual values, estimated useful lives and depreciation methods are reviewed at least annually. In the current and comparative periods the residual values were considered as nil.

(e) Investment properties

Investment property is property held to earn rentals or for capital appreciation or for both, rather than for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative and also which is not occupied by any of the Group entities.

In 2008, investment property comprised freehold land (including land on which construction takes place) and buildings leased out while investment property under development line comprised only buildings under construction. In 2009, the presentation of investment property changed significantly, investment property under development is merged into investment property. For further detail see Note 5.

(i) Investment property

Investment property includes those properties that are already finished and leased out under one or more operating leases, land and sites that are held for a currently undetermined future use and buildings in the phase of construction and the related land on which the project take place.

Initially investment property is measured at cost including related transaction cost. After initial recognition investment properties are measured at fair value using the fair value model according to IAS 40. Any gain or loss arising from a change in the fair value of investment property is recognised as “Net gain / (loss) from fair value adjustment on investment property” in the statement of comprehensive income for the period in which it arises.

Fair value of the investment property is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset or based on other valuation techniques, such as discounted cash flow method (income approach). For further information on the method of determining fair value please refer to Note 3 (e) (iii).

Subsequent expenditures are capitalised 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 repairs and maintenance costs are charged to the statement of comprehensive income as Cost of sales during the period in which they are incurred.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised as Sale of investment property or Retirement of investment property in the statement of comprehensive income in the period of the retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease. If a property, plant and equipment becomes an investment property that will be carried at fair value, IAS 16 will be used up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value is treated in the same way as a revaluation in accordance with IAS 16. However, to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. For a transfer from investment property carried at fair value to property, plant and equipment or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16 or IAS 2 will be its fair value at the date of change in use.

(ii) Dual-use property

A property is a dual-use property if it has dual purposes whereby part of the property is used for "own use" activities that would result in the property being considered property, plant and equipment and part of the property is used as an investment property. A portion of a dual-use property is classified as an investment property only if the portion could be sold or leased out separately under a finance lease. When a portion of the property could not be sold or leased out under a finance lease separately, the entire property is classified as investment property only if the portion of the property held for own use is insignificant.

(iii) Determination of fair value

The fair value of investment properties reflects 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. The Group uses professional appraisers for determining the fair value of the investment properties. For further details on the method of determining fair values of investment properties, please see Note 4.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset only if it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Borrowing costs include interest expenses and foreign exchange differences to the extent that such differences supplement the lower interest rates on foreign exchange borrowings. The commencement date for the capitalisation is the date when the Group first meet all of the following conditions:

- it incurs expenditures for the asset,
- it incurs borrowing cost, and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs may continue until all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of relevant Standards.

Other borrowing costs are charged to profit or loss in the period in which they are incurred.

(g) Leases, leasing payments

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lease classification is made at the inception of the lease contract. Indicators of a finance lease could be the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications;

- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee; and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(i) A Group entity as a lessee

Operating lease

Leases other than finance leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

(ii) A Group entity as a lessor

Operating lease

The Group presents assets subject to operating leases in its statements of financial position according to the nature of the asset. Under operating leases the Group leases out properties, which are categorised as investment properties. Their initial and subsequent measurement is detailed in Note 3 (e).

Lease income from operating leases is recognised as Revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Substantially all operating lease contracts are denominated in Euro. The embedded foreign exchange derivatives in these host lease contracts have not been separated, as euro is commonly used in the Hungarian, Romanian, Czech and Polish economic environment.

(h) Inventories

Properties intended for sale in the ordinary course of business or property under development for such sale are classified as inventories. The cost of inventories is based on specific identification, and may include planning and design costs, borrowing costs, construction overheads and other related costs only to the extent that they are incurred in bringing the inventories to their present condition.

Inventories are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. If net realisable value is less than the cost, the inventory is written down to net realisable value. In each subsequent period, a new assessment is made of net realisable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an Impairment of inventory expense in the period the write-down or loss occurs. The amount of any reversal of such write-downs arising from an increase in net realisable value is recognised as a reduction in the expense in the period in which the reversal occurs.

Inventories which are expected to be realised beyond the normal operating cycle of the residential property construction business are classified as long term inventories.

(i) Impairment

(i) Non-financial assets

The carrying amounts of the Group's assets, other than inventories (Note 3 (h)), investment property (Note 3 (e)) and deferred tax assets (Note 25) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised as impairment of inventory, property, plant and equipment or goodwill in the statement of comprehensive income if any exists.

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

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

(ii) Financial assets

A financial asset (other than assets measured at fair value through profit or loss) is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cashflows of that asset. Evidence of impairment may include indications that debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cashflows, such as changes in arrears or economic conditions that correlate with defaults.

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised as Finance expense in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(j) Employee benefits

(i) Short-term benefits

The Group has short-term employee benefit obligations which are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Share-based payment transactions

The Group has equity settled share-based compensation plans. The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the Share based payment reserve. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Market conditions (such as a target share price) and non-vesting conditions are taken into consideration in the estimated fair value of the equity instruments granted at the date of grant, so the Group recognise the goods or services received from a counterparty who satisfies all other vesting conditions, irrespective of whether that market conditions or non-vesting conditions are satisfied.

Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the shares or share options at the date of grant. Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The Group recognises an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest

differs from previous estimates. On vesting date, the Group revise the estimate to equal the number of equity instruments that ultimately vested.

When a share-based compensation plan is modified, the Group recognises, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments. In addition, the Group recognises the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Group shall accounts for the cancellation or settlement as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess is recognised as an expense.

If the share-based payment arrangement included liability components, the Group remeasures the fair value of the liability at the date of cancellation or settlement. Any payment made to settle the liability component is accounted for as an extinguishment of the liability.

If new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the Group identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the Group accounts for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted. The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity. If the Group does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the Group accounts for those new equity instruments as a new grant of equity instruments.

The fair value of employee stock options is measured based on Black-Scholes-type model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(k) Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation of which amount can be estimated reliably, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provision is determined by discounting the expected future cashflows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(l) Revenue

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

(i) Rental income

Rental income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives (such as rental free periods) granted to customers are recognised as a reduction of rental income on a straight-line basis over the lease term.

(ii) Income from sale of residential properties

Revenue from the sale of residential properties is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, there is no continuing managerial involvement and the amount of revenue can be measured reliably. The transfer of risks and rewards usually occurs when the sales contract are signed by the seller and the buyer.

(iii) Revenue from service and management charges

Service and management charges are recognised in the accounting period in which the services are rendered. When the Group is acting as an agent, only the commission retained by the Group is recognised as revenue.

(m) Finance income and expenses

Finance income comprises interest income on available-for-sale financial assets and on financial assets at fair value through profit or loss, dividend income, changes in the fair value of financial assets at fair value through profit or loss, impairment reversal of financial assets (other than available-for-sale equity instruments) and foreign exchange gains. Interest income is recognised using the effective interest rate method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance expense comprise interest expense on borrowings (net of interest capitalised), changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and foreign exchange losses.

(n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(o) Shareholders' equity

(i) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Share capital includes only paid up shares. The Group has a total of 109,415,787 ordinary shares in issue.

(ii) Share premium

Share premium includes the contribution by the owners above the par value of the shares issued.

(iii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of Group companies from functional currency into the presentation currency of the consolidated financial statements.

(iv) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid including directly attributable costs net of tax is recognised as a deduction from equity. Repurchased shares are

classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings. No gain or loss is recognised in the statement of comprehensive income on the sales, issuance or cancellation of treasury shares.

(v) Share based payment reserve

Share based payment reserve includes the vested options granted by the Group. The cost of options was set at the grant date and they are recognised through the income statement as they become vested. When vested options expire they are reclassified to Retained Earnings within Equity.

(vi) Retained earnings

Retained earnings include the prior year's accumulated profits or losses of the Group.

(p) Earnings per share

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

(q) Segment reporting

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, the Group's chief operating decision maker body. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of operating segment disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results and segment assets that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, financial income and expenses and income tax assets and liabilities.

The Group determines two different operating segments: commercial and residential, based on the functionality of investment properties. See note 6.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.

On 27 November 2008 the IFRIC issued its guidance *IFRIC 17 Distributions of Non-cash Assets to Owners*. IFRIC 17 clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
- an entity should measure the dividend payable at the fair value of the net assets to be distributed.
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. An entity shall apply this Interpretation prospectively for annual periods beginning on or after 1 July 2009. Retrospective application is not permitted. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 July 2009, it shall disclose that fact and also apply IFRS 3 (as revised in 2008), IAS 27 (as amended in May 2008) and IFRS 5 (as amended by this Interpretation). The Group is currently in the process of evaluating the potential effect of this guidance.

The Group does not expect the following amendments and interpretations to have any significant impact on the consolidated financial statements:

IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive certain transfers from their customers. An entity shall apply this Interpretation prospectively to transfers of assets from customers received on or after 1 July 2009.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual period beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 12 *Service Concession Arrangements* (effective for first annual reporting period beginning on or after 1 April 2009) provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2010) clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

1. the agreement meets the definition of a construction contract in accordance with IAS 11.3;
2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 July 2009) explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

4. Use of estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities the next reporting period are discussed below.

(i) Key sources of estimation uncertainty

Fair value of investment properties

Independent valuation reports are prepared by GVA Robertson for properties located in Hungary and Poland, and King Sturge for properties located in Czech Republic and Romania to determine the fair value of investment properties. If information on current or recent prices for investment properties is not available, the fair values are determined by management using discounted cashflow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at the reporting date.

The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions made by the Group and those reported by the market. Expected future rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

The ongoing crisis in the financial markets and the related worldwide recession could have an impact on property markets and property prices although its effects have not been uniform across all markets. As the global recession takes hold, its impacts on the various European property markets will vary depending on many factors. These will include the size of the underlying markets, the extent of excessive capital growth in the past, diversification of tenant mix, general shape of the overall economy, reliance on the credit markets and investor mentality. These global factors contribute to instability and inactivity in real estate markets and could possibly have future negative consequences for the value of real estate assets and the results of the Group due to declines in selling prices of residential units, write downs of inventories, potential increases of real estate yields and therefore decreases in the value of investment properties, impairment of other assets.

(ii) Critical judgments in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies are discussed below.

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 the 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 production or supply of goods or 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 production or supply of goods or 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 determination.

5. Changes in accounting policies

(a) Amendment to IAS 40

In May 2008, as part of its annual improvement process, the IASB approved changes that brought properties being constructed or developed for future use as investment property into the scope of IAS 40. For annual periods beginning on or after 1 January 2009, entities reporting under IFRS are required to apply the amendment prospectively and re-measure properties being constructed or developed for future use as investment property to fair value. Any differences between the carrying amount and the fair value as at 1 January 2009 are to be charged directly to profit or loss on 1 January 2009.

The Group re-measured properties being constructed or developed for future use as investment property to fair value. Due to this change in the accounting policy of the Group the amount charged to the Net gain/(loss) from fair value adjustment on investment property was nil. The effect of this re-measurement was the following:

	2008	2007
Elimination of Investment property under development	(35 491)	(24 551)
Increase in Investment property	35 491	24 551
Net gain/(loss) from fair value adjustment on investment property	0	0
Basic and diluted EPS changes	0	0

(b) Introduction of IFRS 8

A new standard, IFRS 8 "Operating segments" has become effective for periods beginning on or after 1 January 2009 replacing IAS 14 "Segment Reporting". IFRS 8 defines requirements for the disclosure of financial information of an entity's operating segments. It follows the "management approach", which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker (the Board of Directors) in order to allocate resources to a segment and to assess its performance.

Based on IAS 14, segment information had to be reported for business or geographical segments. Segments had to be identified based on the entity's organisational and management structure, and internal financial reporting system. Business segment referred to a distinguishable component of an entity that provided similar type or class of customers with a group of related products and services subject to substantially similar risks and returns, while geographical segment referred to a particular economic and political environment subject to substantially similar risks and returns.

The introduction of IFRS 8 has no effect on segment reporting of the Group since the operating segments under IFRS 8 are the same as the previous business segments under IAS 14. The Group did not report geographical segments under IAS 14.

6. Segment information

The following segment information has been prepared in accordance with IFRS 8, "Operating Segments on the basis of the internal reports about components of the entity. Internal reports for the Group are based on IFRS.

Operating segments

The Group determines two different operating segments based on the functionality of investment properties:

1. commercial segment
2. residential segment

Commercial segment contains buildings built for the Group for the purpose of earning rental income, while residential segment contains buildings constructed to private individuals for immediate sale after completion.

All the Group's activities and assets are located in Central and Eastern Europe.

Segment assets include all operating assets used by a segment and consist primarily of investment property, property plant and equipment, inventories and receivables. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by the two segments is allocated to the segments on a reasonable basis.

Segment liabilities include loans, all operating liabilities and consist primarily of accounts payable, wages and accrued liabilities. Unallocated liabilities mainly comprise deferred tax liabilities.

Additions to non-current assets comprises additions to investment property (Note 7) and property, plant and equipment (Note 8)

Period ended 31 December 2009	Note	Commercial	Residential	Unallocated	Total
Revenue	21	24 131	1 192	-	25 323
Cost of sales	21	(6 513)	(797)	-	(7 310)
Segment gross profit		17 618	395	-	18 013
Revaluation gain /(loss)		(16 588)	-	-	(16 588)
(Impairment losses)/Reversal of losses		(4 015)	(8 166)	-	(12 181)
Net operating profit / (loss)		(7 252)	(7 224)	(2 163)	(16 639)
Net finance income / (expenses)	24	(12 979)	(6 711)	5 442	(14 248)
Profit / (loss) before income tax		(20 231)	(13 935)	3 279	(30 887)
Total income tax (expenses) / income	25	-	-	4 883	4 883

Period ended 31 December 2009	Note	Commercial	Residential	Unallocated	Total
Reportable segment assets		421 476	68 832	12 800	503 108
Deferred tax assets	25	-	-	1 886	1 886
Total assets		421 476	68 832	14 686	504 994

Reportable segment liabilities		216 291	43 400	208	259 899
Deferred tax liabilities	25	-	-	34 868	34 868
Total liabilities		216 291	43 400	35 076	294 767
Capital expenditure		19 474	6 721		
Depreciation		281			

Period ended 31 December 2008	Note	Commercial	Residential	Unallocated	Total
Revenue	21	23 907	9	-	23 916
Cost of sales	21	(7 162)	(68)	-	(7 230)
Segment gross profit		16 745	(59)	-	16 686
Revaluation gain /(loss)		(32 579)			(32 579)
(Impairment losses)/Reversal of losses		(3 699)	(3 447)	-	(7 146)
Net operating profit / (loss)		(21 361)	(6 960)	(4 399)	(32 720)
Net finance income / (expenses)	24	(26 459)	(2 798)	5 127	(24 130)
Profit / (loss) before income tax		(47 820)	(9 758)	728	(56 850)
Total income tax (expenses) / income	25			7 071	7 071

Period ended 31 December 2008	Note	Commercial	Residential	Unallocated	Total
Reportable segment assets		422 468	73 102	33 515	529 085
Deferred tax assets	25	-	-	1 024	1 024
Total assets		422 468	73 102	34 539	530 109
Reportable segment liabilities		216 081	34 879	297	251 257
Deferred tax liabilities	25	-	-	40 115	40 115
Total liabilities		216 081	34 879	40 412	291 372
Capital expenditure		53 091	17 233		70 324
Depreciation		256			256

7. Investment property

Investment property is presented in the statement of financial position using the fair value model. The 93% of the fair value of investment properties were based on independent valuation reports. The remaining 7% of the fair value of the investment properties were valued at a more conservative value, based on management judgment. For further details see Note 3 (e).

During the year ended 31 December 2009 the followings were recognised by the Group as rental income and direct operating expenses in profit or loss:

	2009	2008
Rental income from investment property	17 507	16 582
Total direct operating expenses		
- from investment property that generated rental income during the period	1 622	1 161
- from investment property that did not generate rental income during the period	56	13

The following table shows the movements in the balances of investment property during the period:

Investment property	Period ended 31 December	
	2009	2008
At beginning of period	402 708	394 503
Acquisition of properties	-	13 815
Acquisition through business unit	7 891	14 180
Additions due to subsequent capitalisation of expenditures	18 776	31 423
Transfer from/(to) property, plant and equipment	(23 894)	(1 572)

Transfer from/(to) inventories	(1 827)	-
Disposal	-	-
Net gain/(loss) from fair value adjustments	(16 588)	(32 579)
Effect of movements in exchange rates	(7 226)	(17 062)
Balance at 31 December	379 840	402 708

Acquisition through business unit includes the purchase of Garet Investment Sp zoo, which holds a plot on Jerusalemskaya Av. in Warsaw. The plot size is 25,000 square meters and the building rights for offices will be between 50,000 – 60,000 square meters lettable area. The total consideration paid is TEUR 16. For further details please refer to Note 9.

Transfer to property plant and equipment includes a partial transfer of the Europeum project, ie. a hotel, which will be operated by the Group in the centre of Budapest. Transfer to inventories includes reclassifications in two projects as the proportions of the projects dedicated to residential and office segment have changed.

The breakdown of investment property by location and by status of the project as at 31 December:

By location	Period ended 31 December	
	2009	2008
Hungary	281 750	317 670
Czech Republic	57 620	47 527
Romania	17 780	22 075
Poland	22 690	15 436
Total	379 840	402 708

By status of the project	Period ended 31 December	
	2009	2008
Projects for future development	112 828	96 438
Projects under development	18 180	44 224
Finished projects	248 832	262 046
Total	379 840	402 708

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The date of the last valuation is 31 December 2009.

As from 1 January 2009 the Group applied the improvements to IFRSs of 2008 and specifically improvements to IAS 40 *Investment property* which had a non-material impact on the carrying amount of projects under development. Under the new requirements, investment property under development is included in the scope of IAS 40, therefore projects under development previously measured under IAS 16 is measured at fair value from 1 January 2009. As a result the revaluation gain or loss recognised during the period was nil. For further details, please see Note 5

8. Property, plant and equipment

The gross carrying amount and the accumulated depreciation as at the balance sheet dates were as follows:

	Land & buildings	Plant and equipment	Total
Cost			
<i>Balance at 1 January 2008</i>	1 211	870	2 081
Acquisitions	7 254	-	7 254
Additions	10	589	599
Disposals	-	(132)	(132)
Transfer from/(to) investment property	1 504	-	1 504
Effect of movements in exchange rates	(67)	(163)	(230)
<i>Balance at 31 December 2008</i>	9 912	1 164	11 076
<i>Balance at 1 January 2009</i>	9 912	1 164	11 076
Acquisitions	-	-	-
Additions	620	78	698
Disposals	-	(194)	(194)
Transfer from/(to) investment property	23 894	-	23 894
Effect of movements in exchange rates	(187)	(34)	(221)
<i>Balance at 31 December 2009</i>	34 239	1 014	35 253
Depreciation and impairment losses			
<i>Balance at 1 January 2008</i>	216	566	782
Depreciation for the year	87	169	256
Disposals	-	(132)	(132)
Impairment loss	-	-	-
Reversal of impairment loss	-	-	-
Offset of accumulated depreciation on property transferred to investment property	(68)	-	(68)
Effect of movements in exchange rates	(9)	(49)	(58)
<i>Balance at 31 December 2008</i>	226	554	780
<i>Balance at 1 January 2009</i>	226	554	780
Depreciation for the year	103	178	281
Disposals	-	(128)	(128)
Impairment loss	4 015	-	4 015
Reversal of impairment loss	-	-	-
Offset of accumulated depreciation on property transferred to investment property	-	-	-
Effect of movements in exchange rates	149	(9)	140
<i>Balance at 31 December 2009</i>	4 493	595	5 088
Carrying amount			
At 1 January 2008	995	304	1 299
At 31 December 2008	9 685	610	10 295
At 31 December 2009	29 746	419	30 165

Impairment loss and subsequent reversal

During the year ended 31 December 2009, as the market value of the the hotel part of the Europeum project's declined significantly and therefore the Group recognised an impairment loss of TEUR 4 015. The TEUR 23 894 transfer from investment property is a result of reclassification of the hotel part of the same project, currently under construction.

9. Long term loans

By currency of the loan in TEUR	2009		2008	
	Nominal value	Carrying amount	Nominal value	Carrying amount
HUF				
EUR				
PLN	-	-	8 375	8 375
Impairment on long term loans				
Long term loans			8 375	8 375

Long term loan previously granted to Garet Investment Sp z.o.o. has been eliminated during the consolidation since the Group acquired Garet during the current period.

10. Inventories

	2009	2008
CURRENT INVENTORY		
Opening balance	9 825	57 991
Additions	6 507	17 233
Acquisition through business combination	-	2 501
Transfer from/(to) long term inventory	(167)	(59 950)
Transfer from/(to) investment property	(2 073)	
Disposal	(790)	(15)
Impairment of inventory	-	(3 447)
Reversal of impairment	-	-
Effect of movements in exchange rates	171	(4 488)
Closing balance	13 473	9 825
LONG TERM INVENTORY		
Opening balance	59 950	-
Additions	214	
Acquisition through business combination	-	
Transfer from/(to) current inventory	167	59 950
Transfer from/(to) investment property	3 900	
Disposal	(7)	
Impairment of inventory	(9 255)	
Reversal of impairment	1 090	
Effect of movements in exchange rates	(2 775)	
Closing balance	53 284	59 950
Total inventory	66 757	69 775

Inventories comprise plots and developments for residential purposes. Inventories which are expected to be realised beyond the normal operating cycle of the residential property construction business are classified as long term inventories. These are mainly plots in Romania, Hungary, Poland and Czech Republic where the Group plans to develop residential projects but due to the current financial and economic market conditions the development is postponed for unknown period.

Transfer of investment property to long term inventory is due to the change in the residential proportion of the Kolben, Prague project. The transfer of current inventory to investment property is due to the change in the residential proportion of the Karolkowa, Warsaw project.

Impairment of inventory was recognised in the Pipera 4, Pipera 3 and Timisoara projects in Romania, the Gdansk project in Poland as the fair value of these inventories dropped below its carrying amount. A part of the impairment recognised in the previous period on the Ritka project in the Czech Republic has been reversed due to favourable change in the fair value of the inventory.

11. Trade and other receivables

	2009	2008
Trade receivables	1 442	1 389
Impairment loss on trade and other receivables	(435)	(482)
Prepaid expenses and accrued income	892	1 015
Advances to suppliers	1 090	286
VAT and other taxes refundable	900	1 841
Corporate income tax refundable	375	520
Services not invoiced	33	51
Advances to employees	3	12
Escrow account of land purchase	-	750
Current part of long-term loan	-	41
Trade and other receivables	4 300	5 423

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 30.

12. Investment in securities

	2009			2008		
	Cost	FV adjustment	Carrying amount	Cost	FV adjustment	Carrying amount
Debt instruments						
Corporate sector bonds	-	-	-	3 125	(615)	2 510
Total investment in securities	-	-	-	3 125	(615)	2 510

The Corporate sector bonds were sold during the reporting period. The realised loss was TEUR 136.

13. Cash and cash equivalents

	2009	2008
Bank balances	22 026	29 981
Cash on hand	20	18
Cash and cash equivalents	22 046	29 999

14. Share capital and reserves

	2009			2008		
	Issued pieces (in thousands)	Nominal amount of each share (EUR)	Carrying amount in TEUR	Issued pieces (in thousands)	Nominal amount of each share (EUR)	Carrying amount in TEUR
Balance at 1 January	108 864	0,01	1 089	108 864	0,01	1 089
Issued for cash						
Exercise of share options	721	0,01	7	-	0,01	-
Balance at 31 December	109 585	0,01	1 096	108 864	0,01	1 089
Treasury shares	(172)			(21)		
Shares with voting rights	109 413			108 843		

All issued shares are fully paid. The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share.

In 2008, the Group has repurchased 20,541 of its own shares at a price of 58 pence per share. In 2009, the Group has repurchased 151,000 of its own shares at an average price of 34 pence per share. The Group has issued 720,620 free shares.

For further details on issued share options please refer to Note 15.

Non-controlling interest shown in the Statement of financial position, the Statement of comprehensive income and the Statement of changes in equity is zero as those subsidiaries with non-controlling shareholders have negative equity. As further contribution is not mandatory from non-controlling shareholders, all losses are presented as being attributable to the owners of the Company.

15. Share-based payments

(i) Share Option Plan, issue 1.

On 31 January 2007, the Group granted 4,469,472 stock options to the senior management. The exercise price was 2.5 pounds per share at grant date, and the share options are vested over 3 years until 31 January 2010. No other vesting conditions need to be met. The stock options can only be settled with equity instruments. The number of options vested at 31 December 2009 was 2,633,337 (2008: 1,489,824).

The options outstanding at 31 December 2009 have an exercise price of 2.50 pounds and a weighted average contractual life of 9 years.

In 2009 there were no options exercised. (2008: no options exercised).

(ii) Share Option Plan, issue 2.

On 29 June 2007, an additional 80,000 stock options were granted, out of which 53,333 were vested at 31 December 2009 (2008: 26,667). The exercise price was 2.79 pounds per share. The options are vesting over a 3-year period until 29 June 2010. No other vesting conditions need to be met. The stock options can only be settled with equity instruments.

The options outstanding at 31 December 2009 have an exercise price of 2.79 pounds and a weighted average contractual life of 9 years.

In 2009 no options were exercised. (2008: no options exercised).

The number and weighted average exercise price of the share options are as follows:

Share Option Plan, issue 1

	Weighted average exercise price (GBP)	Number of options	Weighted average exercise price (GBP)	Number of options
<i>in shares</i>	2009	2009	2008	2008
Outstanding at 1 January	2.50	2 735 712	2.50	4 469 472
Forfeited during the period	2.50	(51 188)	2.50	(243 936)
Vesting during the period	2.50	(1 367 856)	2.50	(1 489 824)
Granted during the period	2.50	-	2.50	-
Outstanding at 31 December	2.50	<u>1 316 668</u>	2.50	<u>2 735 712</u>

	Weighted average exercise price (GBP)	Number of vested options	Weighted average exercise price (GBP)	Number of vested options
<i>in shares</i>	2009	2009	2008	2008
Outstanding at 1 January	2.50	1 489 824	2.50	-
Vesting during the period	2.50	1 367 856	2.50	1 489 824
Expired during the period	2.50	(224 343)	2.50	-
Exercised during the period	2.50	-	2.50	-
Outstanding at 31 December	2.50	<u>2 633 337</u>	2.50	<u>1 489 824</u>
Exercisable at 31 December	2.50	<u>2 633 337</u>	2.50	<u>1 489 824</u>

Share Option Plan, issue 2

	Weighted average exercise price (GBP)	Number of options	Weighted average exercise price (GBP)	Number of options
<i>in shares</i>	2009	2009	2008	2008
Outstanding at 1 January	2.79	53 333	2.79	80 000
Forfeited during the period	2.79	-	2.79	-
Vesting during the period	2.79	(26 666)	2.79	(26 667)
Granted during the period	2.79	-	2.79	-
Outstanding at 31 December	2.79	<u>26 667</u>	2.79	<u>53 333</u>

	Weighted average exercise price (GBP)	Number of vested options	Weighted average exercise price (GBP)	Number of vested options
<i>in shares</i>	2009	2009	2008	2008
Outstanding at 1 January	2.79	26 667	2.79	-
Vesting during the period	2.79	26 666	2.79	26 667
Expired during the period	2.79	-	2.79	-
Exercised during the period	2.79	-	2.79	-
Outstanding at 31 December	2.79	<u>53 333</u>	2.79	<u>26 667</u>
Exercisable at 31 December	2.79	<u>53 333</u>	2.79	<u>26 667</u>

(iii) Long Term Incentive Plan

The Remuneration Committee granted 744,820 new shares free of charge to senior management of the Group, based on the Long Term Incentive Plan approved by the Initial Public Offering (IPO). The shares have been granted with a one year vesting period from the grant date of 25 March 2008.

The number and weighted average fair value of the free shares are as follows:

<i>in shares</i>	Weighted average fair value in GBP	Number of free shares	Weighted average fair value in GBP	Number of free shares
	2009	2009	2008	2008
Outstanding at 1 January	1,33	744 820	-	-
Forfeited during the period	0,48	(24 200)	-	-
Granted during the period	-	-	1,33	744 820
Outstanding at 31 December	-	-	1,33	744 820
Vested as at 31 December	0,48	720 620	-	-

The weighted average fair value represents the annual average price of the shares.

Effect of share based payment transactions on the profit or loss for the period

<i>in thousands of euro</i>	2009	2008
Share options granted on 31 January 2007	293	637
Share options granted on 29 June 2007	10	18
Free shares granted on 25 March 2008	397	1 445
Total expense recognised as employee costs	700	2 100

The total expense recognized for the period was accounted as Administrative expenses. For further details, please see Note 22.

The fair value of share options at grant date was measured based on a Black-Scholes-type model. The model inputs were as follows:

	Share Option Plan, issue 1.	Share Option Plan, issue 2.
Fair value at grant date		
Share price at date of grant	2.50	2.79
Exercise price	2.50	2.79
Expected volatility (%)	2.23%	2.23%
Average expected term to exercise (years)	2	2
Expected dividend yield (%)	0	0
Risk-free interest rate (%)	6.37%	6.37%

The fair value of free shares granted was measured at fair value based on a valuation model that among others uses quoted prices available on an active market.

16. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings which are measured at amortised cost.

	2009	2008
Non-current liabilities		
Secured bank loans	173 547	190 169
Loans from non-controlling interest	1 209	1 921
	174 756	192 090
Current liabilities		
Current portion of secured bank loans	68 635	39 281
Current portion of loans from non-controlling interest	799	-
Current portion of loans from related parties	18	18
	69 452	39 299
Total borrowings	244 208	231 389

Breakdown of borrowings by currency:

By currency of the loan in presentation currency (TEUR)	2009			2008		
	Average interest rate as at 31 December	Nominal value	Carrying amount	Average interest rate as at 31 December	Nominal value	Carrying amount
EUR	3.3%	232 911	232 911	5.0%	226 346	226 346
CHF	2.7%	1 942	1 942	2.7%	2 063	2 063
CZK	3.9%	8 459	8 459	6.6%	2 980	2 980
PLN	2.7%	896	896	0.0%	-	-
Total borrowings		244 208	244 208		231 389	231 389

The bank loans are collateralized by mortgage on Property, plant and equipment with a carrying amount of TEUR 27,006 (2008: TEUR 0), mortgage on investment property with a carrying amount of TEUR 295,628 (2008: TEUR 309,067) and mortgage on short and long-term inventory with a carrying amount of TEUR 34,501 (2008: TEUR 20,855).

17. Other non-current liabilities

Other non-current liabilities contain deposits received from tenants to secure the rental fee payable.

18. Trade and other payables

<i>in thousands of euro</i>	2009	2008
Trade payables	11 651	16 025
Accrued expenses	1 721	1 149
Social security and other taxes	611	552
Other payables	411	484
	14 394	18 210

19. Borrowing costs

According to the accounting policy of the Group (see Note 3 (f)), borrowing cost are capitalized if they are eligible for capitalisation. The amount of borrowing costs capitalised during the period was TEUR 1,127 (2008: TEUR 3,512). The borrowings were specific to the qualifying assets.

20. Leases

Operating leases as a lessor

The future minimum rental receivables under non-cancellable operating leases are as follows:

<i>in thousands of euro</i>	2009	2008
Not later than 1 year	16 474	18 193
Later than 1 year and not later than 5 years	43 871	50 503
Later than 5 years	17 443	25 332
	77 788	94 028

The Group has rental contracts in retail properties where the rental fee is based on the higher of a fixed fee and a certain percentage of the turnover of the tenants. The above figures have been measured based on fixed fees of the rental contracts.

Operating leases as a lessee

The future minimum rental payables under non-cancellable operating leases are as follows:

<i>in thousands of euro</i>	2009	2008
Not later than 1 year	96	92
Later than 1 year and not later than 5 years	28	118
Later than 5 years	-	-
	124	210

The Group leases company cars under operating lease contracts.

21. Revenue and Cost of sales

<i>in thousands of euro</i>	2009	2008
Rental income from investment properties	17 507	16 582
Income from service and management activity	6 624	7 325
Revenue from sales of residential properties	1 192	9
Revenue	25 323	23 916
Cost of sales of residential properties	(797)	(68)
Expense of service and management activity	(6 513)	(7 162)
Cost of sales	(7 310)	(7 230)
Gross profit	18 013	16 686

The total income from service and management activity is linked directly to TEUR 4,671 expense (2008: TEUR 5,724), while the rest of the expenses is not offsetted with income.

The Group leases investment property to tenants under operating leases which have a duration period of more than one year. For further details, please see Note 20.

Revenue from sales of residential properties includes the revenue from selling residential properties and parking lots.

22. Administrative expenses

<i>in thousands of euro</i>	Note	2009	2008
Legal, auditing and advisory fees		2 003	3 002
Share options and free shares		700	2 100
Wages		607	853
Travelling		389	576
Office supplies		539	585
Depreciation		281	256
Other services		126	337
Social security and payroll related taxes		284	392
Rental fees		192	293
Other personal type expenses		66	67
Administrative expenses		5 187	8 461

23. Other income and Other expenses

<i>in thousands of euro</i>	Note	2009	2008
Income from damages		56	77
Late payment fee, penalties received		137	67
Gain on disposal of assets		29	25
Other		111	331
Other income		333	500
Bad debt expenses/ (recoveries)		50	54
Penalties		88	166
Other		189	191
Other expenses		327	411

24. Finance income and expenses

<i>in thousands of euro</i>	2009	2008
Interest income on financial assets carried at amortised cost	714	1 691
Foreign exchange gains	2 966	1 468
Finance income	3 680	3 159
Interest expense on borrowings	(10 087)	(13 857)
- Less: interest capitalized	1 127	3 512
Change in the fair value of financial assets at fair value through profit or loss	-	(1 213)
Foreign exchange losses	(8 459)	(15 433)
Other	(509)	(298)
Finance expenses	(17 928)	(27 289)

The above financial income and expense include the following in respect of assets (liabilities) not at fair value through profit or loss:

<i>in thousands of euro</i>	2009	2008
Total interest income on financial assets	714	1 691
Total interest expense on financial liabilities	(10 087)	(13 857)

25. Income taxes

<i>in thousands of euro</i>	2009	2008
Current tax	(216)	(108)
Deferred tax	5 099	7 179
	4 883	7 071

Reconciliation of effective tax rate

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate and applying it to the profit before tax of the consolidated companies, as follows:

<i>in thousands of euro</i>	2009	2009	2008	2008
Profit/(loss) before tax		(30 887)		(56 850)
Tax calculated at domestic tax rates applicable to profits in the respective countries	-19,25%	5 946	-17,72%	10 072
Effect of tax rate changes	-5,88%	1 816	0,15%	(83)
Non-deductible expenses	0,16%	(49)	0,95%	(540)
Expired carry forward tax loss deferred tax asset	0,11%	(33)	4,96%	(2 821)
Recognition of previously unrecognised tax losses	-0,35%	107	0,00%	-
Change in unrecognised deductible temporary differences	10,95%	(3 382)	0,00%	-
Other, net	-1,55%	478	-0,78%	443
Tax (expense)/income	-15,81%	4 883	-12,44%	7 071

In 2009, the Group's income is taxed in Hungary at 20%, in Czech Republic at 20%, in Poland at 19%, in Cyprus 10 %, in Croatia 20% and in Romania at 16%. The income is not taxed in Guernsey.

Movement in temporary differences during the year

	2009	2008
Balance 1 January	(39 091)	(45 613)

Recognised in profit or loss	5 099	7 179
Recognised in equity	-	-
Exchange differences	1 010	(657)
Balance 31 December	(32 982)	(39 091)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2009			2008		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Investment property	574	(36 201)	(35 627)	-	(40 318)	(40 318)
Other items	1 252	(218)	1 034	483	-	483
Tax loss carry-forwards	1 611	-	1 611	744	-	744
Tax (assets) liabilities	3 437	(36 419)	(32 982)	1 227	(40 318)	(39 091)

In 2009, the Group accounted TEUR 0 deferred tax asset/liability directly against equity (2008: TEUR 0 deferred tax asset/liability).

Deferred tax liabilities arise mainly on the fair value adjustment of investment property (i.e. as it is not taxable under statutory tax rules), while deferred tax assets mainly arise on tax loss carry forwards.

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets or liabilities.

26. Earnings per share

The basic and diluted earnings per share were calculated as follows, at 31 December 2009 and 2008 respectively:

<i>in thousands of euro</i>	2009	2008
Profit attributable to ordinary shareholders	(26 004)	(49 779)
Weighted average number of shares (in thousands)	109 300	108 859
Diluted weighted average number of shares (in thousands)	109 468	109 425
Basic earnings per share	(0.2379)	(0.4573)
Diluted earnings per share	(0.2379)	(0.4573)

Weighted average number of shares:

<i>in thousands of shares</i>	2009	2008
Issued ordinary shares at 1 January	108 864	108 864
Effect of own shares held	(120)	(5)
Effect of share options exercised	0	-
Effect of shares issued	556	-
Weighted average number of shares at 31 December	109 300	108 859

27. Commitments and contingencies

As at 31 December 2009 the Group has a commitment from contracts on development of investment property, property, plant and equipment and inventory amounting to TEUR 0 (2008: TEUR 8,461).

The Group has no significant pending legal cases. In accordance with the Group's environmental policy and applicable legal requirements, the Group has not recognised provision for site restoration in respect of contaminated land or other abuse of the environment.

It is not anticipated that any material financial liabilities will arise from contingent liabilities.

The Group requires bank guarantees in the amount of 3 month rental fee from its tenants to secure its receivables from operating lease contracts. Subcontractors are also required to present a bank guarantee in order to re-guarantee their liability arising from guarantees relating to the construction work. The total guarantee amounted TEUR 4,566 at 31 December 2009 (2008: TEUR 5,095). No asset have been

recognised in these financial statements with respect to these guarantees. The Group was also required to present bank guarantees to construction companies in the amount of TEUR 418 as at 31 December 2009 (2008: TEUR 428).

28. Related-party transactions

(i) Transactions with entities with significant influence over the Group

The following table sets out the amount of transactions and outstanding balances at the reporting date:

<i>in thousands of euro</i>	2009		2008	
	Amount of transaction	Outstanding balance as at 31 December	Amount of transaction	Outstanding balance as at 31 December
Volksbank Group and affiliates				
Loans received	(2 846)	142 134	(6 219)	144 980
Income	145	-	-	-
Expenses	5 415	-	9 427	-
Uri Heller and affiliates				
Loans received	-	18	-	18
Other liabilities	-	-	-	14
Expenses	1	-	1	-

Volksbank Group, one of the shareholders with significant influence comprise of the following entities: Kotva GmbH, Investcredit Bank AG, Österreichische Volksbanken AG, Skalea Investments Ltd.

During the period Investcredit Bank AG continued to provide source of finance for the Group. The transactions with Investcredit Bank AG were made on terms equivalent to those that prevail in arm's length transactions. The interest rate on the loans range from 3 month Euribor +1.3 to 3.5 %. The loans are collateralised by mortgages (see Note 16). The total amount of mortgages on the properties was MEUR 228 at 31 December 2009 (2008: MEUR 228).

The affiliates of Uri Heller, one of the shareholders with significant influence comprise of the following entities: Michepro Holdings Ltd., DH Management Ltd. AURA Holding GmbH., Senior Management Services Ltd , Tradotek Kft.

Uri Heller had provided a loan of 18 TEUR to one of the subsidiaries of the Group, the expense shown is the interest expense on this loan in previous years. The transactions with Uri Heller were made on terms equivalent to those that prevail in arm's length transactions.

(ii) Transactions with key management personnel

The following table sets out the amount of transactions and outstanding balances as at the reporting dates:

<i>in thousands of euro</i>	2009		2008	
	Amount of transaction	Outstanding balance as at 31 December	Amount of transaction	Outstanding balance as at 31 December
Management and affiliates				
Income	23	-	-	-
Share options and free shares	470	-	1 338	-
Short term employee benefits	992	-	999	-

Transactions and balances with management include transactions and balances with Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management

Personnel or their close family members. Key Management Personnel include Mr. Dennis R. Twining, Mr. Uri Heller, Mr. Daniel Avidan, Mr. Robert Glatter, Mr. Gerald Williams.

The above transactions with Key Management Personnel were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

No impairment losses have been recorded against balances outstanding during the period with related parties, and no specific allowance has been made for impairment losses on balances with related parties at the period end.

The key management personnel did not receive post-employment benefits, termination benefits or other long term benefits during the period.

29. Fair value of financial instruments

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

31 December 2008

in thousands of euro

Financial assets

Note	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value	Fair value hierarchy level
			8 375			8 375	8 375	Level 2
			1 975			1 975	1 975	Level 2
	2 510					2 510	2 510	Level 1
					29 999	29 999	29 999	Level 2

Financial liabilities

							231 389	231 389	389	Level 2
							1 636	1 636	1 636	Level 2
							17 629	17 629	17 629	Level 2

* Excluding tax receivables and payables and other non-financial assets and liabilities

31 December 2009

in thousands of euro

Financial assets

			-							Level 2
			1 795			1 795	1 795	1 795		Level 2
										Level 1
						22 046	22 046	22 046		Level 2

Financial liabilities

									244 208	244 208	208	Level 2
									1 238	1 238	1 238	Level 2
									13 712	13 712	13 712	Level 2

* Excluding tax receivables and payables and other non-financial assets and liabilities

The methods and, when a valuation technique is used, the assumptions applied in determining fair values of financial instruments were as follows:

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

Cash and cash equivalents, Trade and other receivables, other non-current liabilities, trade and other payables

In case of these financial instruments, carrying amount is a reasonable approximation of fair value due to their short-term nature.

Borrowings and Long term loans

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cashflows, discounted at the market rate of interest at the reporting date.

30. Financial risk management

The Group's principal financial instruments comprise of bank loans and loans from non-controlling shareholders. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group also has various financial assets, such as trade receivables, cash and cash equivalents, bank deposits and long term loans which arise directly from its operations and also has invested in securities.

The main risks arising from the Group's financial instruments are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Market risk

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

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk, primarily with respect to the Euro ('EUR'), Swiss franc ('CHF') and Polish Zloty ('PLN'). Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investment in foreign operations.

Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations. The management uses natural hedge, and liabilities in certain currencies are offset by assets in the same currencies.

Exposure to currency risk

The Group's exposure to currency risk at the reporting dates was as follows:

2009 - in thousands of Euros	Currency of denomination				Total
	EUR	CHF	PLN	Other	
Long term loans	0				0
Trade and other receivables	84				84
Cash and cash equivalents	4 166			37	4 203
Financial assets	4 250	0	0	37	4 287
Other non-current liabilities	837				837
Borrowings	232 954	1 900			234 854
Trade and other payables	1 462			59	1 521
Financial liabilities	235 253	1 900	0	59	237 212
Total net currency positions	(231 003)	(1 900)	0	(22)	(232 925)

2008 - in thousands of Euros	Currency of denomination				Total
	EUR	CHF	PLN	Other	
Long term loans			8 375		8 375
Trade and other receivables	98				98
Cash and cash equivalents	4 380			33	4 413
Financial assets	4 478	0	8 375	33	12 886
Other non-current liabilities	1 186				1 186
Borrowings	225 208	1 896			227 104
Trade and other payables	3 532			39	3 571
Financial liabilities	229 926	1 896	0	39	231 861
Total net currency positions	(225 448)	(1 896)	8 375	(6)	(218 975)

Sensitivity analysis

Reasonably possible change has been calculated based on the standard deviation of the rates quoted by the National Bank of Hungary in the previous 12 month.

The strengthening of the EUR or the CHF against the following currencies at 31 December would have increased (decreased) equity and profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	HUF/EUR	HUF/CHF	CZK/EUR	PLN/EUR	RON/EUR
<i>Reasonably possible change</i>	5%	5%	3%	5%	1%

Effect on equity					
Effect on profit before tax	(8 814)	(95)	(1 001)	(16)	(211)

Effect on equity does not include the effect on the profit of the period.

The same percentage weakening of euro against the above currencies would have had the equal but opposite effect on equity and profit before tax shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates derives primarily from the Group's long-term borrowings and other financial assets with floating interest rates.

Loans obtained at floating rates expose the Group to cash flow interest rate risk, which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses and on interest-bearing assets and liabilities.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

As at 31 December

in thousands of euro	Carrying amount	
	2009	2008
Fixed rate instruments		

Financial assets	-	-
Financial liabilities	44 855	49 322
	44 855	49 322

Floating rate instruments

Financial assets	-	8 375
Financial liabilities	199 353	182 067
	199 353	190 442

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate assets and liabilities at fair value, therefore a change in interest rates at the reporting date would affect neither equity nor profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's equity and profit before tax.

in thousands of euro	Effect on profit	Effect on equity
<i>EUR</i>		
140 bp increase	(2 633)	-
20 bp decrease	376	-
<i>CHF</i>		
140 bp increase	(27)	-
20 bp decrease	4	-
<i>CZK</i>		
140 bp increase	(118)	-
20 bp decrease	17	-
<i>PLN</i>		
140 bp increase	(13)	-
20 bp decrease	(2)	-

Effect on equity does not include the effect on the profit of the period.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment in debt and equity securities.

The Group's policy is to mitigate such risk among other through the following procedures:

- Monitor the financial strength and credibility of its customers and/or tenants on a regular basis.
- Initiate credit verification procedures towards potential new tenants.
- Require collateral from its tenants in order to secure their debts in a way of cash deposits, bank guarantees etc.
- Implement collection and controlling procedure in order to impose debtors to pay their debts on time and respond fast to any failures by any legal mean available.
- Avoid handing over of flats before final settlement with the customers.

Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure without taking account of any collateral held. The maximum exposure to credit risk at the reporting date was:

	2009	2008
Long term loans	-	8 375
Trade and other receivables	4 300	5 423
Investment in securities	-	2 510
Cash and cash equivalents	22 046	29 999
Total	26 346	46 307

Trade receivables include customer debt from regular sales activity. These receivables are mainly collateralized by cash deposits and bank guarantees. The fair values of collaterals held at the reporting date were as follows:

<i>in thousands of euro</i>	2009				2008			
	Long term loans	Trade and other receivables	Investment in securities	Cash and cash equivalents	Long term loans	Trade and other receivables	Investment in securities	Cash and cash equivalents
<i>Against individually impaired</i>								
Cash deposit		6				20		
Guarantees		51						
Others								
<i>Against collectively impaired</i>								
Cash deposit								
Guarantees								
Others								
<i>Against past due but not impaired</i>								
Cash deposit		279				492		
Guarantees		387				510		
Others								
<i>Against neither past due nor impaired</i>								
Cash deposit		2090				1614		
Mortgage					8 375			
Guarantees		1079				784		
Others								
Total collateral	0	3 892	0	0	8 375	3 420		

Impairment losses

The aging of trade and other receivables at the reporting date was:

	2009			2008		
	Gross exposure	Impairment	Carrying amount	Gross exposure	Impairment	Carrying amount
Not past due	636		636	402		402
Past due but not impaired	360		360	439		439
Past due and impaired:						
Less than one year	2	1	1	1	0	1
Over one year	444	434	10	547	482	65
Total	1 442	435	1 007	1 389	482	907

The movement in allowance for impairment in respect of trade and other receivables during the year was as follows:

	2009	2008
Balance at 1 January	482	633
Impairment loss recognised		
Reversal of impairment losses	47	151
Balance at 31 December	435	482

The allowance account in respect of loans and receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2009 the Group does not have any collective impairments on its trade and other receivables (2008: nil) as all receivables are assessed individually.

(iii) Liquidity risk

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

The Group relies on external funding to finance its current and future development projects. The future acquisitions of investment properties and the ability of the Group to expand its operations is partly dependant on its ability to obtain future bank financing.

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 dynamic nature of the underlying businesses, the Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Given the current conditions in the real estate market in the countries where the Group has projects, the Group has analyzed the consequences on its activities and considered various ways to cope with challenges of this time. The current policy of the Group through its subsidiaries is focusing on the planning phases but not to start construction and marketing before the real estate markets recover and bank financing will be available.

The following are the gross nominal inflows / (outflows) of the contractual, undiscounted cashflows, including estimated interest payments, of the Group's financial liabilities:

	Carrying amount	Gross nominal inflow/(outflow)	up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years
Borrowings	244 208	(244 208)	(69 452)	(8 676)	(45 015)	(6 806)	(7 138)	(107 121)
Trade and other payables	14 394	(14 394)	(14 394)	-	-	-	-	-
Other non-current liabilities	1 238	(1 238)	-	(336)	(422)	(109)	(60)	(312)

In case of loans payable, the following defaults and breaches happened during the reporting period:

One loan has an 80% loan to value (LTV) covenant and based on a recent valuation the Group repaid €3.7 million in April 2009 to bring it into compliance. Regarding this loan, the Company is currently in breach of ISC covenant, and in order to cure the breach, the bank has asked the subsidiaries involved, to deposit all the excess cash flow into a special reserve account. The interest of the loan is higher for the period while the interest service coverage (ISC) covenant is not met.

Other covenants:

There are five loans with LTV and ISC covenants. The LTV covenants are between 80% and 71%.

Loan to value ratios are based on valuations done according to the requirements of the specific loan agreement.

(iv) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the possibility of net asset value growth of the company as a primary guideline. The Board of Directors also monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

Dividend Policy

The Company has adopted a dividend policy that will reflect long-term earnings and cash flow potential while at the same time maintaining both prudent dividend cover and adequate capital resources within the business.

The board approved the declaration of £4.0 million dividend on account of the profits of 2008. This dividend is in line with the dividend policy that was declared before the IPO.

As a result of increased volatility in the global financial markets, and the resulting uncertainty, the Group's Board of Directors has decided it would not be prudent to recommend the payment of a dividend for the current year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31. Events after the reporting period

On 27 November 2009, Ablon's wholly owned subsidiary, Global Center Kft., was informed by its lawyer that a verdict issued by the Arbitration Court Attached to the Hungarian Chamber Of Commerce And Industry obliged the Defendant, BVM Épelem Előregyártó és Szolgáltató Kft ("BVM") to reimburse in 30 days HUF 4,988,000,000 as principal, plus due interest of approximately HUF 3,000,000,000 (approximately 29 million euro in aggregate). Details of this verdict were published by Ablon on 1 December 2009. On 1 February 2010, the Economic Department of the Budapest Municipal Court rejected a claim filed by BVM to annul a decision made by the Arbitration Court, and decided that the arbitration verdict issued on 27 November 2009 remained valid. Global Center Kft. is therefore following an execution process to collect the verdict amount. Neither of the contingent asset nor the income is recognized in the financial statements for the year ended as at 31 December 2009.

One of Ablon group subsidiaries in Romania defaulted to pay on February 28, 2010 the first installment of €1.6 million on account of short term loan to the project lender. The subsidiary is in negotiations with the lender to find a solution, but did not come at the moment of publishing the financial statements for the year ended at December 31, 2009, to any new agreement. If the lender will use its right to foreclose over the subsidiary, the total effect of the Group profit and loss accounts will be immaterial.

Mr. Daniel Avidan has resigned as director of the Company as of 11 February 2010 to pursue other business interests. Mrs. Adrienn Lovro has been appointed as an Executive Director of the Company as of 9 March 2010.