



ATLAS
ESTATES



Annual Report & Accounts 2007

Atlas Estates Limited (“AEL” or “the Company”)

is a leading investor in real estate in Central and Eastern Europe with a dual listing on AIM and the Warsaw Stock Exchange

- » Atlas Estates Limited (“the Company”) is a closed-ended investment company incorporated in Guernsey. The Company began trading and was admitted to the AIM market of the London Stock Exchange on 1 March 2006. On 12 February 2008 the Company was also admitted to the Warsaw Stock Exchange and share trading commenced.
- » The Company invests in real estate assets situated in Central and Eastern Europe (“CEE”). The Company currently operates in the Polish, Hungarian, Slovakian, Romanian and Bulgarian real estate markets. Through an appropriate balance of income-generating properties and development projects, the Company intends to provide investors with an attractive combination of yield and capital appreciation.
- » The Company’s investment objective is to generate attractive and recurring returns from a diversified portfolio of real estate assets located in economically attractive countries in CEE. The Company is targeting an overall return of 20 per cent on an annualised basis and intends to employ leverage to enhance its returns although the extent of such leverage will vary on a property by property basis.
- » The Company’s assets are managed by Atlas Management Company Limited (“AMC”), a company whose sole purpose is to manage the Company property portfolio. AMC provides the Company with a management team with vast experience and knowledge of real estate investment and development. In particular AMC can demonstrate a good track record of investment, development and management of property in CEE markets.

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IBC Advisors

Chairman's Statement

I am pleased to announce strong performance and progress in 2007. Since Admission to AIM on 1 March 2006, the Company continues to deliver on the strategic objectives and targets it set out at the time of its IPO. Optimising shareholder value remains the Company's key priority.

This is evidenced by the progress that the Company has made since the year end, most noticeably by the successful completion of the Company's listing on the Warsaw Stock Exchange ("WSE") on 12 February 2008. As a result, the Company is the second company to have a dual listing on AIM and on the WSE, with Warsaw becoming its primary listing. The admission to trading on the WSE is a major step forward in the Company's development, as it will provide the Company with access to a new shareholder base and increase the liquidity of the shares within a regulated EU exchange. It also aligns the Company more closely to the territory where the majority of its operations are located.

On 14 January 2008, the Company announced that a preliminary agreement for the conditional disposal of its interest in the Millennium Plaza building in Warsaw had been signed. The property had been acquired for €78 million in March 2007 and we were pleased to report that it had been agreed with the purchaser to sell the company owning the property for a headline price of €93.1 million. This is conditional upon a third party approval. The final completion is expected in the coming months.

The sale of Millennium Plaza demonstrates the Company's ability to unlock value within its assets through active management and recycle the capital back into the Company, in readiness for future acquisitions or development programmes.

Meeting IPO targets

At the time of its IPO, the Company stated that its aims were to invest the proceeds of the listing in a diversified portfolio within 18 months, targeting an overall return of 20% per annum through dividend yield and capital growth. To date, the Company has invested

all of the net funds raised, paid dividends in line with the levels indicated at IPO and undertaken a share buyback programme. The Company has been able to deliver total shareholder return in 2007 of 23% pre-payment of the incentive fee.

Financial highlights and valuation of assets

The Company has delivered a profit before tax of €11.4 million in the year to 31 December 2007, compared with a loss of €9.8 million for the 11 months of trading in 2006. This has been achieved principally as a result of a €36.2 million valuation increase recorded within the Company's investment portfolio, which underlines our ability to select stock and effectively add value through the active management of assets in our portfolio.

The Company's principal revenue streams are rental income; sales from its hotel operations and income from the sale of the residential apartments it develops. Revenue from letting of investment properties was €13.9 million for the year compared with €5.3 million for the eleven months of trading in 2006. The Hilton Hotel in Warsaw was opened on 19 March 2007 after its successful construction and development by the Company and the Golden Tulip Hotel in Bucharest was acquired in March 2007. Revenue from hotel operations was €13.2 million. No revenue has yet been recognised from the sale of residential apartments.

The Company's share of the whole property portfolio at the end of 2007 is €508 million, representing a 61% increase from the previous year. Of this total, the investment portfolio represents €214 million, the hotel portfolio amounts to €125 million, and the development portfolio represents €169 million. The valuation increases demonstrate both the value that asset management initiatives add to the Company's properties and the continuing strength of the CEE property markets. These markets remain attractive to investors, particularly in comparison to western markets, where a degree of uncertainty remains. The CEE property markets are forecast by many

commentators as areas where the outlook for investment, opportunity and growth in the coming years remains positive.

Dividends and share buyback programme

The Company paid a second dividend for 2006 of 8.32 eurocents per share in June 2007. The Company declared an interim dividend for 2007 of 8.32 eurocents per share, which was paid in October 2007 and the Company intends to pay a further dividend for 2007 of 16.68 eurocents per share. This takes the total dividend for the year to 25 eurocents per share, representing an annualised yield of 5%, based upon the initial flotation price of €5 per share. The 2007 dividend and the 2006 dividend of 3% annualised yield are in line with the targets set at IPO.

In December 2007, the Company carried out a share buyback programme, acquiring 3,470,000 shares at a total cost of €16 million. Since IPO a total of €30 million has been paid in dividends and share buybacks.

The dividend policy of the Company as set out in the recent prospectus for the listing in Warsaw remains unchanged. The Board will be reviewing the dividend policy in the coming months to take account of the investment opportunities available to the Company.

Net Asset Value (NAV)

The Company has used Net Asset Value per share and Adjusted Net Asset Value per share as key performance measures since IPO. In the 12 months to 31 December 2007, Net Asset Value ("NAV") per share, as reported in the consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards, has increased by a further 8.5% to €4.98 per share for 2007. The Adjusted NAV per share, which includes valuation gains, net of deferred tax on development properties held in inventory and land held under operating lease, but not recognised at fair value in the balance sheet, has increased by 17.3% to €6.36 per share.

For the first time, the Company is also reporting performance in accordance with the European Public Real Estate Association ("EPRA") Best Practices Policy Recommendations of November 2006. Adoption of these practices allows consistency and comparability in performance reporting measures across the industry. The Company has reported a Diluted EPRA NAV per share of €6.59 per share. The same measure for 2006 would have been €5.64 per share.

An independent valuation on the entire property portfolio is carried out on a semi-annual basis by Cushman & Wakefield acting as an independent expert. This measures the total value added during the financial period and is included in the basis for the Property Manager's performance assessment and fee calculations.

Strong pre-sales of apartments and the overall growth of the markets have driven the increase in value of the development land

holdings over their book cost. These land holdings are valued on a residual value and comparative basis. No profit is taken to reflect the stage of development of each site.

A key indicator of performance is the net asset value ("NAV") of the Group. The following table sets out the impact on NAV per share of the revaluation of land assets that cannot be reflected in the reported balance sheet due to accounting standards.

	Book cost to Group as shown in the Balance Sheet €'000	"Independent" value at 31 December 2007 €'000	Movement in value €'000
Development land assets and land held under operating lease included in total assets at cost to the Group	107,886	184,610	76,724
Attributable to minority interest partners	(1,771)	(2,803)	(1,032)
Company share of increase in valuation of development land and land held under operating lease	106,115	181,807	75,692
Deferred tax on increase in valuation of development land and land held under operating lease at local rates			(13,839)
Basic net asset value per balance sheet			224,116
Adjusted net asset value			285,969
Number of ordinary shares in issue at 31 December 2007			44,978,081
Adjusted net asset value per share as at 31 December 2007			6.36
Adjusted net asset value per share as at 31 December 2006			5.42
Net asset value per share at IPO (after costs)			4.73

Included in the Income Statement is a sum of €36.2 million arising from the revaluation of the Group's investment properties. The total revaluation reserve of €8.1 million represents the revaluation of the Hilton Hotel and the Golden Tulip Hotel.

Further analysis of the Company's NAV is contained in the Property Manager's review below.

Operations

The Company's shares were admitted to AIM in March 2006 and it has successfully been meeting its IPO objectives.

- » The proceeds from the AIM IPO are now fully invested in the CEE property markets. This equity, combined with bank debt, has resulted in gross assets of €508 million being attributable to the Company, based upon the latest independent valuation.
- » Local offices and operations have now been established in five countries: Poland, Hungary, Slovakia, Romania and Bulgaria.

Our main focus has been in acquiring properties in the respective capital cities of Warsaw, Budapest, Bratislava, Bucharest and Sofia. In 2006 the Company made an investment in Kosice, the second largest city in Slovakia. Additionally, in June and September 2007, two properties were acquired in Gdańsk in Poland. These were the Group's first investments in Poland outside of Warsaw. These acquisitions are in line with the secondary objective of acquiring assets in cities other than capital cities.

- » In March 2007 the Company completed its first development with the construction of the Hilton Hotel in the Wola district of Warsaw. During 2007 the hotel has performed ahead of expectation. The residential units at Platinum Towers development, located adjacent to the Hilton, have attracted significant demand. Pre-completion apartment sales have exceeded expectations, with 326 apartments sold subject to completion. The development will be completed in 2009/10, when revenue from sales will be recognised.

Chairman's Statement

continued

- » In Warsaw in the Capital Art Apartments the Company has commenced construction of the first and second stages with a pre-sold 216 apartments out of 219 in stage 1 and 35 apartments out of 177 apartments in stage 2. This project is being developed in five stages, with the first stage expected to be completed in 2008/09. The Company also holds valuable land assets in Warsaw, for which it is acquiring zoning and permits for further development.
- » In Hungary the Company has seven properties, all of which are located in Budapest. Four are income producing assets, including the Ikarus Industrial Park. It is anticipated that some of these properties may be redeveloped in the future. In February 2008 a new zoning plan was obtained for the Ligetvaros and Varosliget sites, allowing the development works to begin on these mixed-use properties. The Atrium Homes development property is a two-stage development, with construction of stage 1 expected to commence in 2008 and with significant pre-sales of apartments already secured. Completion of stage 1 of this project is scheduled for 2009 with stage 2 following in 2010. The Company also has a 50% interest in the Volan project, which presents 89,000 m² gross mixed use in the heart of Budapest adjacent to the West End shopping mall and the future government offices development, which would allow the Company to create value.
- » In Slovakia there are two development sites, in Bratislava and Kosice. In Bratislava we are awaiting approvals for re-zoning of the land and we are pleased with the progress being made with the local authorities. In Kosice we are in progress of design and expect to obtain building permits in 2008.
- » In 2007 we also increased our presence in Romania, a fast-developing market, and have three properties, including the Golden Tulip Hotel and two significant land banks which are now planned for redevelopment.
- » In 2007 the Company also increased its portfolio of income producing assets to ensure an even proportion of assets between income producing assets and development property assets. This included the opening of the Hilton Hotel in Warsaw, Poland and the following four significant acquisitions:
 - Millennium Plaza in Warsaw, Poland (a conditional agreement for the sale of this asset has been entered into)
 - Sadowa office building in Gdansk, Poland
 - Golden Tulip Hotel in Bucharest, Romania and
 - an office building in Sofia, Bulgaria.

The CEE regions remain popular for real estate investors looking to achieve higher returns than those currently achievable in Western Europe. Management has continued to demonstrate its ability to source quality investment and development opportunities. The Company has a total of 22 property sites across five countries, with the net IPO proceeds fully invested, in line with the timeframe outlined at the time of the Company's IPO.

Central and Eastern Europe

Our chosen area of investment continues to present many opportunities to secure impressive total returns for our shareholders. GDP growth throughout CEE has consistently outperformed that of Western Europe, with the exception of the Republic of Ireland and Greece. This trend is forecast to continue into the foreseeable future as the region's economies continue to expand and develop.

Membership of the EU and greater personal wealth created both domestically and as a result of population movements and the growing emergence of business activity in capital and other cities, has produced a vibrant real estate market in the region.

Yields on investment properties have compressed over recent years but are still above those of comparable assets in Western Europe. Capital values continue to increase as yields reduce further, but underlying rental values are still some way behind those of more mature real estate markets. In most cities in the region, rents show signs of increasing, underpinned by a strong demand for quality space.

Trends in the region have moved away from the older, existing stock and towards newer, western-style developments. This provides opportunities for companies with development capabilities to exploit the need for new premises with pre-lets now more readily available. The sector specific demand varies from country to country but, across the region, a shift towards regional centres as an alternative to the capital cities is also becoming apparent.

In addition to a strong environment for commercial property, there is also a growing demand for new, modern living accommodation. As residents have more disposable income and mortgage finance becomes more readily available, there is an increasing desire to move away from old, out-dated apartment blocks. This is helping to increase sales prices for all apartment types and related space.

Prospects

Competition in the region is becoming stronger as we continue to see more investors looking at CEE as a home for the increasing volume of funds looking to invest in real estate.

It is not certain how the evolving financial crisis in the global markets will affect the economies where the Company is active. Management is taking appropriate measures, such as increasing liquidity, to mitigate any potential risks. We believe, however, that the fundamentals in the region support continued growth.

The Company has demonstrated its ability to source attractive off-market opportunities. These opportunities have been generated by both the management team's region-wide contact base and the presence of local managers in each of the territories in which we have assets. The Board considers local management presence to be a key factor in the success of the Company.

Through its dedicated teams of property professionals that have lived and worked in these markets for many years, the Company can identify, appraise and secure transactions at terms that are more favourable than those that are offered in the open market. The Company's local resource also provides an experienced delivery team that has knowledge of the different construction and sales requirements in the different markets.

The Property Manager's review below details the progress that we are making in executing our development plans and in securing maximum returns from our yielding assets. We have a strong pipeline of varied opportunities that span all sectors of the real estate market, both in countries in which we have assets and areas where we have identified the potential for expansion. Our on-the-ground teams are now sourcing transactions away from the capital cities, to focus on regional cities, where we see the potential for higher returns in the medium term.

I would like to take the opportunity to thank my fellow Board members, the directors and staff of the Property Manager and our team of advisors for their continued enterprise and skill in establishing our operating base and moving the Company forward. I look forward to the year ahead with confidence.

Quentin Spicer

Chairman

26 March 2008

Property Manager's Report



In this review we present operating results for the 12 months ended 31 December 2007. The Company appointed AMC to oversee the operation of its portfolio and advise on new investment opportunities and can report that, in line with the Company's original timetable, we have fully invested the funds raised at IPO within 18 months of admission.

In February 2008 the Company completed a second listing on the Warsaw Stock Exchange, which is a very important milestone in the development of the Company, as it will broaden the shareholder base and increase the liquidity of the shares.

During 2007, the Company succeeded in sourcing new opportunities, whilst generating added value through the active management of its yielding asset portfolio. It has also begun to crystallise the value of development projects by pre-selling, and beginning construction of, hundreds of apartments.

The property portfolio is constantly reviewed to ensure it is in line with the Company's stated strategy of creating a balanced portfolio that will provide future capital growth; the potential to enhance investment value through active and innovative management programmes and the ability to deliver strong development margins.

The management team continuously monitors the territories in which the Company is invested, analysing the economics of the region and the key measures of the sectors in which it operates to ensure that it does not become over exposed to, or reliant on, any one particular area. At the same time, we evaluate the risks and rewards associated with a particular country, or sector, in order to maximise

return on investment and therefore the return to shareholders.

We believe that we are creating a portfolio that will provide a balance of above average returns on yielding assets and a sustainable source of development gains from projects of varying maturities.

Portfolio valuation

Valuation methods

At 31 December 2007, the gross market value of the property assets within the Company's portfolio, including valuation gains on development properties held in inventory and land held under lease but not recognised at fair value in the balance sheet, was €555 million (€329 million at 31 December 2006). Atlas' share of the portfolio amounts to €508 million (€315 million at 31 December 2006). The whole of the portfolio was valued by Cushman & Wakefield, an independent international company of real estate advisors. In the 12 months under review to 31 December 2007, the value of Atlas' share of the portfolio increased by 61% or €193 million over the valuation or acquisition cost at 31 December 2006. This increase is a result of acquisitions and valuation uplift, the latter being driven by the Company's active asset management programmes.

Net Asset Value

The basic fee and performance fee of the Property Manager, Atlas Management Company Limited ("AMC") are determined by the Adjusted Net Asset Value. For the year to 31 December 2007 the combined fee payable to AMC was €12,289k (€9,400k in 31 December 2006).

The Group's property assets are categorised into three classes, when accounted for in

accordance with International Financial Reporting Standards. The recognition of increases in value from each category is subject to different treatment as follows:

- » Yielding assets let to paying tenants – classed as investment properties with valuation movements being recognised in the Income Statement.
- » Property, plant and equipment operated by the Group to produce income, such as the Hilton hotel or land held for development of yielding assets (PPE) – revaluation movements are taken direct to reserves, net of notional tax.
- » Property developments, including the land on which they will be built – held as inventory with no increase in value recognised in the financial statements.



The Company sets out below the key measures relating to Net Asset Value per share. This includes the NAV per share per the financial statements, the Adjusted NAV per share as defined at IPO and previously disclosed by the Company and the EPRA NAV per share.

	NAV 2007 € millions	NAV per share 2007 €	NAV per share 2006 €
Basic NAV	224.1	4.98	4.59
Development land valuation increase	75.7		
Deferred tax	(13.8)		
Adjusted NAV	286.0	6.36	5.42
Warrants at €5 per share	27.4		
Deferred Tax on investment properties and hotels	19.2		
EPRA NAV	332.6	6.59	5.64

Notes:

The number of shares in issue as at 31 December 2007 is 44,978,081 (31 December 2006: 48,448,081)

The number of warrants outstanding at 31 December 2007 and 2006 are 5,488,118

Financial management

Atlas has completed its second year as a listed entity and now has a dual listing in Warsaw and London. As a result, it is continually improving and developing its financial management infrastructure. Finance teams have been established in each territory of operation and are supervised by an experienced Company finance department.

We continue to enhance our internal control and reporting procedures and IT systems in order to generate appropriate, timely management information for the ongoing assessment of the Company's performance.

Cash is managed at both local and head office levels, ensuring that rent collection is prompt, surplus cash is suitably invested or distributed to other parts of the Company as necessary and balances are held in the appropriate currency.

The main financial risks faced by Atlas are currency and interest rate exposures. Currency risk is largely managed at a local level by matching the currency in which income and expenses are transacted and also the currencies of the underlying assets and liabilities.

Most of the income from the Company's investment properties is denominated in euros and our policy is to arrange debt to fund these assets in the same currency. Where possible, Atlas looks to match the currency of the flow of income and outgoings. Some expenses are still incurred in local currency and these are planned for in advance. Development of residential projects has created receipts largely denominated in local currencies and funding facilities are arranged accordingly. "Free cash", available for distribution within the Company, is identified and appropriate translation mechanisms put in place.

Where possible, Atlas will use debt facilities to finance the various projects. These facilities will be secured at appropriate times, depending on the nature of the asset – yielding or development.

As at 31 December 2007 Atlas' share of bank debt associated with the portfolio stood at €218 million, with cash at bank and in hand of €35 million. The loan to value ratio is 43%. The gearing ratio is 82%, based upon net debt as a percentage of equity attributable to shareholders and is 45% based upon net debt as a percentage of total capital. We are refinancing properties where valuations have increased, thereby releasing equity for further investment.

Property Manager's Report

continued



Conclusions

2007 has been a year of strong progress throughout Atlas' operations, building on the experiences gained during its first year as an AIM-quoted company. We are particularly encouraged by the strong results produced through recycling assets in the portfolio and the progress made in obtaining relevant zoning and planning permits across the Company's development portfolio, together with the income that is being produced by its investment properties.

AMC remains confident that, through the expertise of its management teams located across its network of regional offices and its experience in unlocking value from its assets through active management, the Company can continue to deliver on its strategic objectives and deliver value to its shareholders in the future.

Amos Pickel

Chief Executive Officer
Atlas Management Company Limited

Michael Williamson

Chief Financial Officer
Atlas Management Company Limited

26 March 2008

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Slovakia

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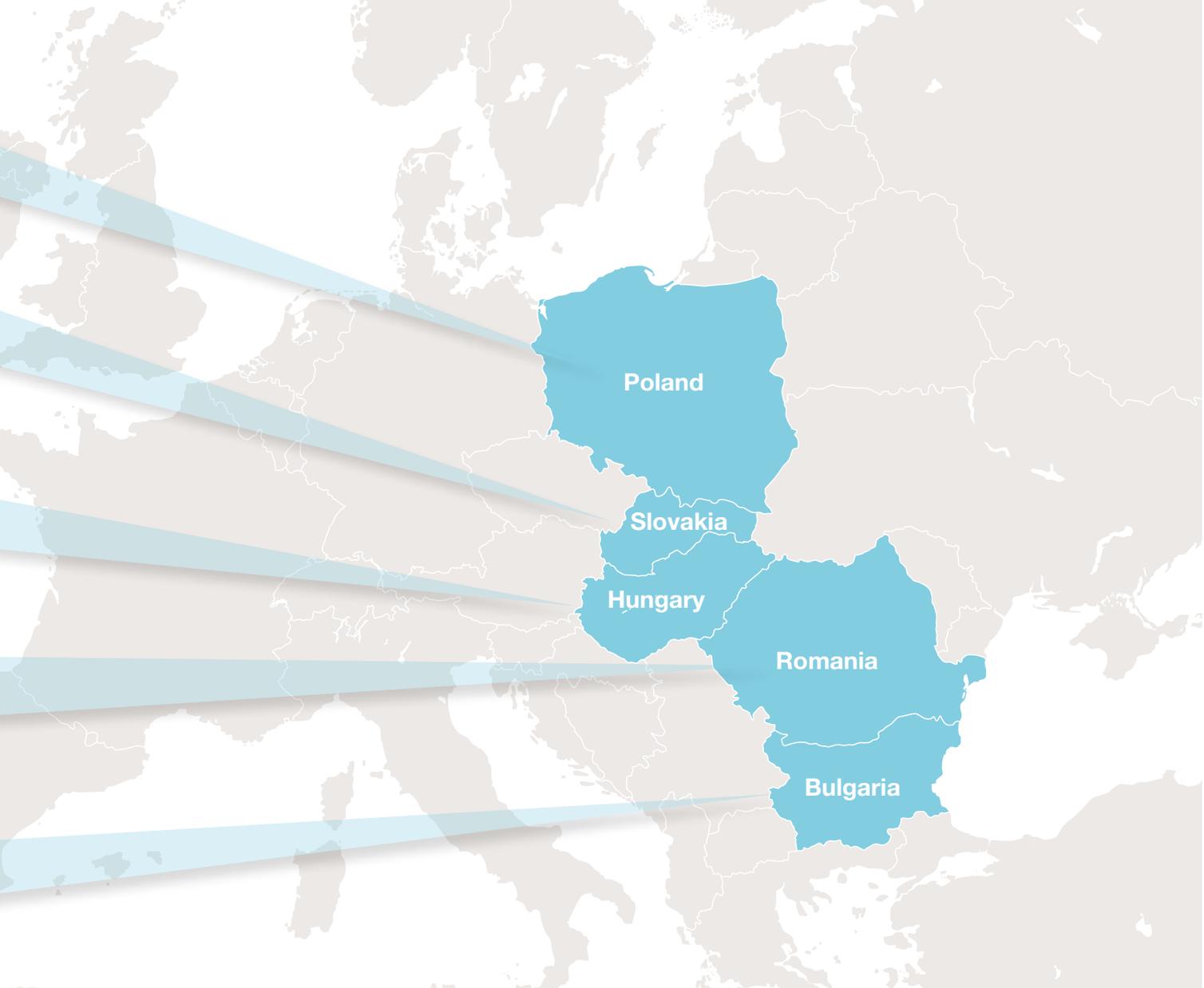
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Romania

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Bulgaria

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Property Portfolio Information: Poland



Hilton Warsaw Hotel and Convention Centre

Opened on 19 March 2007, this is the first Hilton in Poland. Located in the central Wola district of Warsaw, the hotel provides modern, spacious accommodation for business travellers and tourists alike and is a clear demonstration of the Company's ability to attract high quality global brands as its partners.

The Hilton comprises 314 rooms and suites and has the largest convention centre facility in the Warsaw hotel market. The hotel is managed on the Company's behalf by Hilton under a long-term management agreement that provides for base and incentive fees linked to the performance of the hotel.

The complex also includes a 4,500 m² Holmes Place health club and spa and a casino, both of which are leased directly from the Company. Direct lease agreements have also been completed for a collection of smaller retail units included in the fabric of the complex. A specialist operator is contracted to manage the 240-space underground car park.

The Hilton management team is led by individuals with extensive experience in the CEE region. They were on site for a number of months prior to opening, installing systems, training staff and taking reservations for rooms and functions in 2007 and continue to oversee the hotel's operations.

The hotel is well positioned to be highly successful, with the combination of the Hilton brand and the quality of the accommodation and facilities being offered to the market providing confidence for the success of the venture. Recent years have also seen a vast improvement in the Warsaw hotel market in general, with occupancy and room rates rising steadily.

Since its opening, the Hilton Warsaw has enjoyed better results than anticipated, due to the strong hotel market in Warsaw and benefiting from the largest convention centre in the city.

OUR PORTFOLIO OVERVIEW: POLAND

Location/property	Description	Company's ownership
Hilton Hotel	First Hilton Hotel in Poland, 314 rooms and conference facilities	100%
Platinum Towers	391 apartments in two towers and a third tower with 22,500 m ² of office space. The two residential towers are with building permits and pre-sales	100%
Capital Art Apartments	760 apartments with building permits and pre-sales	100%
Zeilono	Land with zoning for 265 apartments	76%
Millennium Tower	32,700 m ² of office and retail space	100%
Cybernetyki project	3,100 m ² plot of land zoned for 11,000 m ² of residential development	50%
Sadowa project	6,550 m ² office building with 99% occupancy	100%
Kokoszki, Gdańsk	430,000 m ² plot in Gdańsk with zoning for construction of 130,00 m ² of mixed use development	50%



Platinum Towers, Warsaw

The Platinum Towers residential and office development adjoins the Hilton complex in the heart of a city that has undergone rapid expansion and redevelopment, resulting from significant economic growth and wealth generation.

Platinum Towers (Residential), Warsaw

When development works complete, these two towers will provide approximately 26,000 m² of living accommodation divided into 391 apartments. The towers span 22 floors and will also house a number of ground-floor commercial units. Residents of the towers will be able to benefit from the facilities of the Hilton hotel.

The Company has obtained the required building permits for the development and construction of both towers and construction has commenced. Sales of the apartments have been very strong. To the date of this report, 130 out of 191 apartments have been sold in the second tower, while the first tower is 99% pre-sold. We are in the process of completing the sale of all remaining apartments.

Platinum Towers (Offices), Warsaw

As part of the Hilton/Platinum complex a third tower will be constructed. Office rental prices are continuing to rise in the Warsaw market, and project appraisals are currently being finalised to assess the most profitable use for the building, as the Company has zoning for both residential and office uses. An office scheme would provide a total lettable area of 22,500 m² of modern, Class A office space over 32 floors. The tower would provide approximately 17,500 saleable m² as a residential and commercial scheme.

Capital Art Apartments Project, Warsaw

The Capital Art Apartments contain approximately 760 apartments providing over 46,000 m² of modern living accommodation in the Wola district of Warsaw. The development will also house 1,700 m² of commercial space and 800 car parking spaces.

Property Portfolio Information: Poland

continued



Sales of the first stage have been strong. We have sold 216 apartments out of the 219 available. Construction of the first stage is continuing according to schedule and preliminary sales agreements have been signed for 35 of the 177 apartments for the second stage. Construction of slurry walls for the second and third stages has commenced.

Zielono Project, Warsaw

The Zielono Project (formally Nowy Zoliborz) is situated in a more suburban residential area of Warsaw. The total plot area is 12,454 m² and zoning has been obtained for 265 apartments and additional commercial space. The demolition of the existing buildings has been completed and the building permit has been applied for.

Millennium Plaza, Warsaw

Millennium Plaza is centrally located in a prime position on one of Warsaw's major transport intersections. The asset comprises 32,700 m² of modern accommodation over a total of 28 floors, providing 6,100 m² of retail and 26,600 m² of office space.

The Company announced on 14 January 2008 that it entered into an agreement with Akron Management CEE GmbH for the sale of the company owning the property for €93.1 million. This is subject to tenant fit-out costs where the right to claim dilapidation payments from leaving tenants has been assigned to the seller. Completion is dependent upon third party approvals being obtained. All conditions must be satisfied or waived by the purchaser by 30 August 2008. If these are not fulfilled the purchaser will have 30 days to either withdraw or proceed to completion. This asset was originally acquired in an off-market transaction at €78 million in March 2007, representing an initial yield of 8%.

Cybernetyki Project, Warsaw

This asset comprises a 3,100 m² plot of land that was acquired by Company with zoning for an office development. After purchase, the Company has undertaken a re-zoning process and obtained zoning consent for the development of 11,000 m² of residential and commercial space. The Company paid €3.25 million for its share of the land, held in a 50:50 partnership with Edmond de Rothschild Real Estate Fund.

Work on detailed design was concluded. Sales and construction is anticipated to commence in the second quarter of 2008.



Sadowa Office building, Gdańsk

The Sadowa Office building is a modern office asset comprising 7,471 gross m² of high quality office space over six floors. The property occupancy level is at 99% with 6,550 m² of net leasable office space. The final acquisition price, which was determined as per a pre-agreed formula, amounted to €9.5 million (including costs).

The building will generate €850,000 in net annual operating income, representing a yield of 9%. Cushman & Wakefield valued this property at €11.3 million.

Kokozski, Gdańsk

The Company concluded the purchase of this 430,000 m² plot in the Kokozski district of Gdansk at the beginning of September 2007. The plot has building rights for the development of 130,000 m² of mixed-use accommodation. The Company holds 50% of the project, with the remainder held by a local partner.

Property Portfolio Information: Hungary



Hungary

Atrium Homes, Budapest

Atrium Homes is a residential development in the 13th district of Budapest. The development will be constructed in two phases and will provide nearly 22,000 m² of residential accommodation, split into 456 apartments over eight floors. The complex will also contain 456 underground parking spaces and an additional 5,800 m² of commercial space.

Building permits have been received for phase one, which will deliver 235 apartments, plus commercial space and two underground parking floors. Pre-sales of the apartments have commenced, with 65 apartments sold. Construction agreements have been finalised and work will begin once pre-defined sales targets have been met.

Ikarus Business Park, Budapest

Ikarus Business Park is located in the 16th district of Budapest. It currently provides approximately 110,000 m² of flexible office, logistics and warehouse space to a mix of international and local tenants. Active asset management by AMC has increased the occupancy of the park from 62% at IPO to 74% currently.

The Company secured grant funding from the Hungarian Government to redevelop a 7,000 m² building to provide modern warehouse space with integral office space. The grant will fund 40% of the estimated build cost of €1.3 million, providing space which is expected to add over €300,000 to net operating income. Works on this building will be finished by the end of March 2008. Currently 45% of the building is leased with prices in the range of Euro 4.25 per m².

Over the longer term, the Company intends to redevelop the park for mixed use as it is located within an established residential neighbourhood. The park has a gross land area of 283,000 m², but currently contains only 110,000 m² of built areas. The Company continues to work with the municipality to obtain re-zoning permits.

Metropol Office Centre, Budapest

The Metropol Office Centre provides 7,600 m² of modern office accommodation in the 13th district of Budapest and was originally constructed by one of the Company's founder shareholders. It is well located to provide easy access to the centre of Budapest.

The property is fully let to five corporate tenants on a mix of leases with maturities of up to five years.

OUR PORTFOLIO OVERVIEW: HUNGARY

Location/property	Description	Company's ownership
Ikarus Business Park	283,000 m ² plot with 110,000 m ² of lettable business space	100%
Metropol Office Centre	7,600 m ² office building, 100% occupied, yield on acquisition price: 8.25%	100%
Atrium Homes	456 apartments with building permits, marketing commenced	100%
Ligetvaros Centre	6,300 m ² of office/retail space, 99% occupied. Rights to build extra 6,000 m ² . Yield on acquisition price: 8%	100%
Varosliget Centre	12,000 m ² plot in Central Budapest, with zoning for residential development of 31,000 gross m ²	100%
Moszkva Square	1,000 m ² of gross office space yielding 8.75%	100%
Volan Project	20,640 m ² plot, zoning for 89,000 m ² mixed use scheme	50%



Ligetvaros Centre, Budapest

The Ligetvaros Centre is a mixed-use complex, providing retail and office space in the 7th district of Budapest. It is situated in a popular, central location within Budapest, offering easy access to the main shopping and tourist areas of the city.

The Centre provides 6,300 m² of mixed-use space that is currently 99% occupied. The retail areas are anchored by Kaiser Supermarkets (part of the SPAR International chain) and DM Drugstores, a major pharmacy chain in Hungary.

In February 2008 the Company has obtained new zoning for the adjacent Varosliget Project. The new zoning affects the Ligetvaros property also and enables the Company to develop approximately 6,000 m² of new gross space for leasing. Management is working on a conceptual design to this development.

Varosliget, Budapest

Varosliget adjoins the Ligetvaros Centre in a unique position near to central Budapest. It comprises a plot of 12,000 m², located a few hundred metres from Andrassy Street, a well-known central area. Varosliget currently provides small business units at the lower end of the office and warehouse market. The Company owns 90% of the plot with the remaining 10% being held by the local municipality.

On 4 February 2008 the municipal authorities for Budapest's 7th district approved a new zoning plan for the Varosliget-Ligetvaros Centre. According to the new zoning the Company will be able to develop a mixed-use project on the Varosliget property with a size of approximately 31,000 m² gross. Most of the development will contain from new development. The Company will file in Q2 2008 an application requesting the approval of the intended purposes of the developments in accordance with the new zoning plan.

Moszkva Office building, Budapest

Situated in a prime location on the main square of the Buda side of the city, the asset comprises 1,000 m² of office space over three floors. The property is fully occupied with 95% of the leases having a remaining term of at least seven years. The Company acquired the property for a net initial yield of 8.75%.

Volan Project, Budapest

The Volan site is located in central Budapest, close to Heroes Square, the West End Shopping Centre and the Hilton hotel. The 20,640 m² plot has been prepared for the development of a planned 89,000 m² of mixed residential, office, and retail and leisure space. The Company has acquired a 50% interest in the plot at a cost of €7.5 million.

The Company has concluded a significant review of the conceptual design. The new design builds in the flexibility to develop most of the site as offices, residential, retail and commercial. The Company has obtained building permits for the first stage of the project.

Property Portfolio Information:

Romania, Slovakia and Bulgaria



Romania

Solaris Project, Bucharest

The Solaris Project is a 32,000 m² plot adjacent to Obor Square, one of Bucharest's main transport hubs and residential areas. It is located within a former industrial zone that is currently being redeveloped for residential and commercial use. The Company has acquired the freehold ownership of the site and the existing buildings have been demolished to develop a mixed residential and retail scheme.

We have commenced the re-zoning works for the plot and conceptual design and market studies are in progress.

Voluntari Land, Bucharest

The Voluntari Land Project comprises three adjacent plots with a total area of 99,116 m², located in the Voluntari district of Bucharest.

On 4 July 2007 the Company completed, through a share purchase, the acquisition of our development partner's 40% interest in the project company. The acquisition price totalled €6,432,702, representing €216 per m² of land. As a result, the Company now owns 100% of the land.

Progress has been made on the overall master plan for the area and new projects are being constructed nearby. The conceptual design is currently being prepared.

Golden Tulip Hotel, Bucharest

The Golden Tulip Hotel is an 82-bedroom, four-star hotel in central Bucharest. It was built in 2005 and was acquired by the Company in March 2007. It is situated near to the main tourist attractions and business districts, where occupancy rates currently average approximately 80%.

Slovakia

Nove Vajnory Project, Bratislava

Nove Vajnory is a plot of 879,000 m² of land on the outskirts of the city of Bratislava. The land was acquired about three years ago from the Bratislava municipality, the land that is currently zoned for sports and recreation

OUR PORTFOLIO OVERVIEW: ROMANIA, SLOVAKIA AND BULGARIA

Location/property	Description	Company's ownership
Romania		
Voluntari	99,116 m ² of land in three adjacent plots	100%
Solaris Project	32,000 m ² plot for re-zoning to residential development	100%
Golden Tulip Hotel	Four star 82 room hotel in central Bucharest with 80% occupancy	100%
Slovakia		
Nove Vajnory	879,000 m ² of land acquired from municipality, under re-zoning for mixed use development	50%
Basta Project	10,000 m ² for mixed use development in centre of Kosice, second city of Slovakia, with zoning	50%
Bulgaria		
The Atlas House	Office building in Sofia's city centre with 3,472 m ² of lettable area spread over eight floors	100%



used to serve as a sports airfield. The Company is intending to change the zoning of the land to provide approximately 1,100,000 m² of mixed-use development.

Since acquisition of the property, the Company has been working on various aspects of planning and obtained necessary approvals from various authorities.

The new master plan for Bratislava has been adopted in September 2007, which facilitates a rezoning application. In October 2007 the municipality of Vajnory has approved the Company change of zoning application with a scheme of 1,100,000 m². Currently the new zoning is awaiting the approval of the municipality of Bratislava, which is the final stage of the re-zoning process.

The approval of the zoning plan is not expected until the end of 2008.

In September 2007 the Company sold 28.25% of its holdings in the project to its partner Eastfield at a valuation of €46,515,000. Currently the Company holds 50% of the project.

Basta Project, Kosice

Located in the centre of Kosice, the second largest city in Slovakia with a population of over 240,000, the site comprises 10,000 m² of land for redevelopment. Held in a 50/50 joint venture with Eastfield, the partner in the Vajnory project, the site has zoning for residential, retail, office and leisure uses. Work is being done on the conceptual design of the project.

Bulgaria

The Atlas House, Sofia

The Atlas House is a fully-occupied office building, located in Sofia's city centre, less than 1 km from the Central Business District. The building has 3,472 m² of leasable area spread over eight floors. The purchase of the Atlas House was completed in October 2007.

Directors – Atlas Estates Limited

Quentin Spicer

Chairman

Non-executive Director

Aged 63

Mr Spicer, an English solicitor and resident of Guernsey was head of the Property Department of Wedlake Bell in London before becoming Senior Partner of the Guernsey office in 1996. He is chairman of a number of companies including ISIS Property Trust 2 Limited, RAB Special Situations Company Limited and European Value and Income Fund Limited. Mr Spicer is also a non-executive director of a number of property investment funds and is a member of the Institute of Directors.

Michael Stockwell

Non-executive Director

Chairman of Audit Committee

Aged 61

Mr Stockwell is a pension investment consultant for Kodak Limited, responsible for asset allocation and investment manager appointments. He is a trustee and a member of the investment board of Kodak Limited's United Kingdom pension plan (asset size £1.1 billion). Mr Stockwell has over 30 years' experience in the pension investment area, including 15 years as manager of one of the UK's top 100 pension funds. Previously, Mr Stockwell was European pensions investment director for a large US multinational with assets of over \$2.5 billion in some 15 European countries.

Shelagh Mason

Non-executive Director

Aged 48

Mrs Mason is an English property solicitor with over 22 years' experience in commercial property. Currently practising as Mason & Co in Guernsey she was previously a senior partner of Edge & Ellison (now part of Hammonds), responsible for commercial property. For two years until 2001 she was chief executive of Long Port Properties Limited, a property development company active throughout the United Kingdom and the Channel Islands. Mrs Mason is a member of the Board of Directors of Standard Life Investment Property Income Trust, a property fund listed on both the London and Channel Islands Stock Exchanges and is a non-executive director of Ptarmigan Property Limited, an AIM listed property fund.

Dr Helmut Tomanec

Non-executive Director

Aged 45

Dr Tomanec is an authorised officer of Volksbank and managing director of Immoconsult Leasing GmbH (its subsidiary). He is responsible for the bank's project finance, real estate development and finance lease activities in Austria and CEE. Previously Dr Tomanec was chief corporate counsel for Maculan International GmbH, Vienna where he was responsible for all subsidiaries and branch offices and construction agreements in various countries including Poland, Hungary and Slovakia and real estate developments in CEE.

Directors – Property Manager, Atlas Management Company Limited

Rafael Berber

Chairman of AMC
Investment Committee member
Aged 46

Mr Berber is a founding partner of RP Capital a London-based investment group founded in July 2004 and specialising in emerging markets. Prior to founding RP Capital, Mr Berber was formerly vice chairman of Global Capital Markets & Financing, Global Head of Equity Linked Products, and global head of equity trading and the strategic risk group at Merrill Lynch. Mr Berber also led the development of Merrill Lynch's European emerging markets business. Mr Berber holds an MBA in Finance from New York University and a Bachelors Degree in Economics from Tel Aviv University.

Gadi Dankner (resigned 4 March 2008)

Vice Chairman of AMC
Investment Committee member
Aged 41

Mr Dankner has successfully executed numerous real estate projects in various countries, developing local real estate managerial platforms where developments have been located. As chairman of Elran Real Estate, Mr Dankner established a management team in Poland and structured the Company's seed portfolio in that country. In addition, he led the development of Elran's local operations in Spain and Slovakia and the development of Israel's first theme park.

Previously, Mr Gadi Dankner was a director and shareholder of Autóker, a Hungarian real estate development company which held major land reserves in Budapest and built and sold more than 815 apartments during Mr Gadi Dankner's three and a half year tenure.

Mr Gadi Dankner has a Masters degree in Business Administration from Northwestern and Tel Aviv University.

Ron Izaki

Director
Chairman of Investment Committee
Aged 49

Mr Izaki is the chief executive officer and primary shareholder of the Izaki Group which was founded in 1948 and is now one of the leading real estate development firms in Israel. He has been involved in the development of thousands of apartments and millions of square feet of commercial and retail space in the USA, Israel and Western Europe. Mr Izaki is also a director of Brack RE, an international owner, developer and manager of real estate. He has a Bachelors Degree in Civil Engineering from the Israel Institute of Technology.

Dori Dankner (resigned 4 March 2008)

Director
Investment Committee member
Aged 47

Mr Dori Dankner is the current Chairman of the Board of Directors of Elran Investments Limited, a company traded on the Tel Aviv Stock Exchange. He has 20 years of real estate experience, establishing projects in Israel and Europe. Mr Dori Dankner was part of Dankner Investments Ltd., a leading real estate company in Israel, which has built thousands of residential units and three shopping centres. Mr Dori Dankner has an MBA in finance and International Business from New York University and a BSc in Industrial Engineering from Tel Aviv University.

D. Saradhi Rajan

Director
Aged 40

Mr Rajan is currently a Principal of RP Capital. Prior to joining RP, Mr Rajan had worked at Merrill Lynch in London and Hong Kong. Whilst in Hong Kong, he was responsible for the origination of corporate equity derivatives and private equity linked financing in South and South-East Asia. Prior to this, he worked as an investment banker at Lazard and Donaldson, Lufkin & Jenrette.

Mr Rajan was educated at The Doon School, has a Bachelors Degree in Commerce from Loyola College, University of Madras and is a Chartered Accountant.

Amos Pickel

Director
Chief Executive Officer
Aged 41

Mr Pickel previously served as Chief Executive Officer and a member of the Board of Directors of Red Sea Hotels Limited, the multinational property investment and development company, from 1993 to 2006.

Mr Pickel has a broad range of real estate experience ranging from commercial property investment and residential development to hotel investment and development. Under Mr Pickel's management, Red Sea Hotels co-developed the Plaza Centers Shopping Mall Chain in Central and Eastern Europe and the Park Plaza Hotel Chain in Western Europe.

Mr Pickel holds a Masters in Law from New York University and a BA in Law from Tel Aviv University.

Michael Williamson

Chief Financial Officer
Aged 50

Mr Williamson is a Chartered Accountant and holds a BSc (Econ) in Economics from the University of Wales. He has been divisional Finance Director in the pharmaceutical companies GlaxoSmithKline and Sanofi-Aventis. He has been Group Finance Director with the FTSE listed MFI Plc. His most recent position was with the listed group LTG Technologies Plc.

Directors' Report

The Directors present their report and the audited financial statements for the 12 months ended 31 December 2007.

Results and dividends

The results for the Group and Company for the period are set out in the income statements on page 32 and show a profit after tax attributable to equity shareholders of €8.2 million (2006: loss after tax of €10.7 million).

The Company paid a second dividend for 2006 of 8.32 eurocents per share in June 2007. The Company declared an interim dividend for 2007 of 8.32 eurocents per share, which was paid in October 2007 and the Company intends to pay a further dividend for 2007 of 16.68 eurocents per share. This takes the total dividend for the year to 25 eurocents per share, representing an annualised yield of 5%, based upon the initial flotation price of €5 per share.

Activities and review of business

The Company was admitted to the AIM market of the London Stock Exchange and commenced trading on 1 March 2006 and a listing on the Warsaw Stock Exchange was completed on 12 February 2008. The Company is domiciled in Guernsey as a closed-ended investment company under Guernsey Law.

The principal activity of the Company is property investment and development throughout CEE, together with the management of its properties. The development of the Company's business and future prospects is considered in the Chairman's statement on pages 2 to 5 and the Property Manager's Report on pages 6 to 9.

Business environment

GDP growth throughout CEE has consistently outperformed that of Western Europe, with the exception of the Republic of Ireland and Greece. This trend is forecast to continue into the foreseeable future as the region's economies continue to expand and develop.

Membership of the EU and greater personal wealth created both domestically and as a result of population movements and the growing emergence of business activity in capital and other cities, has produced a vibrant real estate market in the region.

Yields on investment properties have compressed over recent years but are still above those of comparable assets in Western Europe. Capital values continue to increase as yields reduce further, but underlying rental values are still some way behind those of more mature real estate markets. In most cities in the region, rents show signs of increasing, underpinned by a strong demand for quality space.

Trends in the region have moved away from the older, existing stock and towards newer, western-style developments. This provides opportunities for companies with development capabilities to exploit the need for new premises with pre-lets now more readily available. The sector specific demand varies from country to country but, across the region, a shift towards regional centres as an alternative to the capital cities is also becoming apparent.

In addition to a strong environment for commercial property, there is also a growing demand for new, modern living accommodation. As residents have more disposable income and mortgage finance becomes more readily available, there is an increasing desire to move away from old, outdated apartment blocks. This is helping to increase sales prices for all apartment types and related space.

Strategy

Focus on residential development projects

Taking into consideration current market trends and the demand for apartments and houses in the region, the Company Estates Group intends to concentrate on residential development projects. While implementing this strategy the Group will concentrate mostly on apartments intended for middle-class buyers. As the Directors believe that undersupply exists both in capital cities and other cities, the Group intends to strengthen its position in non-capital cities, where development lands can be sourced in a less competitive environment. Residential projects will be evaluated on a case-by-case basis, taking into account the risk level and the profitability of the projects.

While concentrating on residential developments as its primary focus, the Group will also undertake retail, commercial and office development projects where such projects offer an appropriate rate of return. Where the Group undertakes a development of income-producing property, it will be inclined to keep such property within its portfolio, so as to enjoy the rental income stream resulting therefrom.

Development of residential and non-residential space will be evaluated taking into account local demand and profit margins in each of the countries and cities in which the Group operates. Margins tend to vary between different countries and cities based on economic cycles and the relative maturity of the given market. The Group constantly monitors and evaluates the different markets and opportunities.

Continuity of development activity

In order to maintain stable levels of apartment sales and thus, to the extent possible, stable levels of cash flow, the Group intends to have at all times developments in the various stages (zoning and planning, design, construction, sales, and delivery). Consequently, and given the constant rise in prices of land in the CEE region, the Group intends to develop a land bank which will permit the realisation of development projects for the next few years of the Group's operations.

Acquisition of income producing assets

In order to ensure a steady stream of rental income, the Group intends to continue to acquire office buildings. The Group does not intend to necessarily invest in prime A-class office space in the most prestigious locations, such investments suffer from low yields driven by strong competition. The Group's strategy is to achieve superior returns by investing in market segments which have less competition and by executing transactions which require more complicated structuring, which the Group is able to accommodate. This strategy is based on an assumption that commercial development in the CEE region creates growing demand for high-quality office space which is affordable for local businesses. The Group also plans to purchase buildings which may be used as hotels. In accordance with its practice thus far as regards these types of assets, the Group intends to retain experienced third-party entities to manage such properties. When purchasing the hotel assets, the Group will take into consideration the attractiveness of the given location, as well as the local demand for hotel beds. The Group may also consider purchasing real estate intended for other purposes (such as logistic centres), if it deems such investment attractive in light of the available market information.

Diversification

In order to hedge against risks, the Group intends to maintain a diversified portfolio of real estate investments. The diversification will have three aspects: firstly, the Group intends to diversify its geographical reach by investing in various countries in the CEE region; secondly, the Group intends to diversify the type of investment (e.g. residential development, office, commercial, etc.); thirdly the Group intends to stagger the development phases of its various projects (e.g. the purchase of land, the design phase, the construction phase, the marketing and sale process) in order to maintain stable levels of income earned.

As at 31 December 2007, the Company has investment assets in Poland, Hungary, Slovakia, Romania and Bulgaria, but the Company intends to use its experiences in other dynamically developing markets. This strategy will allow the Group to further geographically diversify its operations and achieve an appropriate scale of its operations. The Group also intends to continue its strategy of investing in non-capital cities in the countries in which it operates.

Key performance Indicators

Key performance indicators vary between the different areas of the Group's business.

The success of developing and selling residential apartments will be measured in terms of the price achieved for each apartment, the profit margin earned over construction cost and as a proportion of sales and the overall rate of return from a development. Information on sales is detailed in the Property Manager's Report on pages 6 to 9. All apartments to date have been sold at prices in excess of the initial budget. However as sales have so far been 'off plan' and developments are so far incomplete, no comprehensive margin or return data has been capable of being prepared.

For yielding assets the measure of the yield of an asset relative to its cost to the Group is of key importance. Also the overall valuation of the portfolio will drive the value to the Company and ultimately the Company's share price. Details of total return targets and increases in net asset value per share are included within the Chairman's Statement and Property Managers Review.

The key financial risk policies are stated within the financial sections of this report on pages 42 to 44.

Substantial shareholdings

At 12 March 2008, the following shareholders had notified the Company of an interest in 3% or more of its ordinary share capital:

Table 1 – Notifiable interests

Shareholder	Number of shares	%
Livermore	9,579,345	21.28
Brown Brothers	6,594,509	14.60
Elran (D.D.) Real Estate Limited	4,097,509	9.10
Apollo Nominees Limited	4,373,326	9.03
CIBC World Market Corporation	3,857,649	8.60
Rathbone Brothers Plc	3,989,967	8.24
Henderson Global Investors Limited	3,070,000	6.34
Fibi Bank	2,488,465	5.50
Laxey Partners Limited	2,258,598	5.02
Stitching Pensionenfonds	1,600,000	3.60
Merrill Lynch & Co. Inc.	1,546,396	3.19
Total		94.50

Directors' Report

continued

Purchase of own shares

By a resolution passed on 25 July 2007, shareholders granted the Directors the authority to purchase a maximum of 14.99% of the Company's own shares. These may be purchased at a minimum of €0.01 per share and a maximum of no more than 5% above the average mid-market price as derived from the Daily Official List for the five business days preceding the purchase.

The Company's shares have traded at a price that the Directors have considered to be below their true value. The Directors have felt it appropriate to buy back the Company's shares at a discount to their underlying value. A total of 3,470,000 shares have been bought back under the authority detailed above, at an average price of 315 pence per share.

Directors and Directors' share interests

The Directors who served during the year are detailed in Table 2 below. No Director had any direct interest in the share capital of the Company or any of its subsidiaries during the year. Mr Spicer acquired a beneficial interest in 14,785 shares in the Company in 2007.

Table 2 – Directors

Mr Quentin Spicer	Appointed 9 February 2006
Mr Michael Stockwell	Appointed 3 February 2006
Mrs Shelagh Mason	Appointed 3 February 2006
Dr Helmut Tomanec	Appointed 3 February 2006

Biographical details for all Directors are set out on pages 18 and 19.

The Directors retire by rotation and Dr Tomanec, being so entitled and willing, offers himself for re-appointment at the forthcoming Annual General Meeting.

Directors' responsibilities

Guernsey company law requires that Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the results of the Company and the Group for that period. In preparing those financial statements, the Directors are required to:

- » select suitable accounting policies and then apply them consistently;
- » make judgements and estimates that are reasonable and prudent;
- » ensure the financial statements comply with IFRS as adopted by the EU; and
- » prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company or the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Company and the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

Company website

To provide a portal for investor information and in accordance with the requirements of AIM, the Company maintains a website accessed at www.atlasestates.com.

The Directors are responsible for the maintenance and integrity of the website. There is, however, some uncertainty regarding the legal requirements of the website as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Auditors

The Directors confirm that as at 26 March 2008:

- » So far as they are aware, there is no relevant information (that is, information needed by the Company's or the Group's auditors, in connection with preparing their report) of which the Company's or the Group's auditors are unaware.
- » The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's and the Group's auditors are aware of that information.
- » The auditing firm (qualified auditor of financial statements) who audited the consolidated annual financial statements has been selected in compliance with the provisions of the law and that this firm and the qualified auditors who performed the audit met the conditions to issue an impartial and independent opinion from the audit in accordance with the applicable provisions of national law.

The stand-alone financial statements of the Company and the consolidated financial statements of the Group for 2007 were audited by PricewaterhouseCoopers CI LLP on the basis of a contract concluded on 5 December 2007.

The total fees specified in the contract with the audit company, payable or paid for an audit and review of the financial statements and for other services are presented below:

Table 3 – Audit company – fees

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Audit of stand-alone and consolidated financial statements	622	605	246	71
Review of stand-alone and consolidated financial statements	151	–	151	–
Other services	1,200	77	–	–
Total	1,973	682	397	71

A resolution concerning the re-appointment of PricewaterhouseCoopers CI LLP as auditors and their remuneration will be submitted to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 25 June 2008.

Quentin Spicer

Chairman

Shelagh Mason

Director

26 March 2008

Corporate Governance Review

The Company aspires to apply the highest possible standards of corporate governance in all areas of its business. The Board and where delegated, the Property Manager, are developing a comprehensive system of controls, checks and reporting requirements that they feel will provide the ability to maintain these standards. The systems mentioned are being designed to meet the requirements of the Company and its business and to assess and manage the opportunities and risks that may arise. Whilst the Board is mindful of the guidance of the Combined Code wherever possible, its systems will be suitable for a Company of its size, the small number of Directors that form the Board and the external management function provided by the Property Manager.

Structure and membership of the Company's Board

The Board of Directors comprises the non-executive Chairman and three further non-executive Directors. There is a clear separation of the role of the Chairman and the Property Manager, governed by the Property Management Agreement that was entered into on 24 February 2006.

The Board identifies all of its non-executive Directors as being independent of the Company based on their level of involvement with the founder shareholders prior to the formation of the Group and their involvement in the day-to-day management of the Group on an ongoing basis. They provide strategic management and act as the final Investment Committee for all investment/divestment decisions. The executive and day-to-day management is provided by the Property Manager whose role and responsibilities are clearly defined in the Property Manager Agreement.

The Board meets formally at least four times a year and regular contact is made between the Board and the Property Manager in the intervening periods. The Directors meet periodically without the Property Manager present and on occasion without the presence of the Chairman.

A formal schedule of matters reserved specifically for the Board's decision is approved and reviewed on an ongoing basis by the Board. Such matters include, but are not limited to:

- » developing Group strategy and monitoring the progress towards objectives set for management;
- » reviewing the Company's capital, operating and management structures;
- » setting the system of internal and financial controls and accounting policies;
- » communicating the aims and objectives of the Company to shareholders; and
- » ensuring that the Group has effective risk management procedures in operation at all times.

A formal schedule of matters reserved for the Board of the Property Manager is also approved and reviewed on an ongoing basis by the Board.

All members of the Board have access to the advice and services of the Company's Administrator and full and timely access to all relevant information in an appropriate form and of sufficient quality to enable them to discharge their duties and responsibilities. Guidance is provided to Directors on obtaining independent professional advice when necessary and the Company maintains a comprehensive directors' and officers' liability insurance policy.

Appointments to the Board are subject to a formal process of selection involving the Board as a whole. The Directors are appointed for indefinite terms and a third of the Board retire by rotation each year. Directors' terms of appointment provide for prior approval of the Board for the acceptance of any outside appointments. In the event of a request for approval the Director in question is asked to confirm and demonstrate that they can continue to commit sufficient time to the fulfilment of their duties.

Board committees

The Audit Committee comprises the whole of the Board and is chaired by Mr Stockwell. It meets at least three times a year to review the interim and year end financial statements prior to their submission to the Board and to review the appointment of the auditors and the scope, performance and remuneration of services provided by them. Procedures are in place for the approval of non-audit services provided by the Company's auditors.

The entire Board also forms the Investment Committee in order to appraise and approve or reject investment proposals made by the Property Manager. The Investment Committee meets as and when required.

The Company has not formed a separate Remuneration or Nominations Committee as the Property Manager Agreement provides for the remuneration of the Manager and the Board as a whole considers any further appointments.

Table 4 – Attendance at meetings

	Board meetings	Committee meetings	
		Audit	Investment
Number of meetings in the year	14	3	7
Mr Quentin Spicer	12	3	6
Mr Michael Stockwell	10	2	5
Mrs Shelagh Mason	13	3	5
Dr Helmut Tomanec	9	1	5

Directors' responsibilities

Guernsey company law requires that the Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the result of the Group for that period. In preparing those financial statements, the Directors are required to:

- » select suitable accounting policies and apply them consistently;
- » make judgements and estimates that are reasonable and prudent;
- » ensure the financial statements comply with IFRS as adopted by the EU; and
- » prepare financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Company and the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Property Manager

The Property Manager has also undertaken to maintain the highest standards of corporate governance in line with the direction set by the Board. Where delegated, the Property Manager has continued to put in place a comprehensive system of controls, checks and reporting requirements that they feel provides the ability to maintain these standards.

The Property Manager has a board ("PM board") comprising of a non-executive Chairman and four further non-executive directors. It meets formally at least four times a year and more regularly when required to do so to review its requirements under the terms of the Property Manager Agreement. A formal schedule of matters reserved for the decision of the PM board, derived from the role and responsibilities set out in the Agreement has been approved and is reviewed on an ongoing basis.

The Property Manager has appointed an Investment Committee comprising four of its non-executive Directors to review and approve those investment and divestment opportunities that are presented to the Company for its approval and completion. The PM board collectively approves the appointment of senior management within the Property Manager, details of which are then reported to the Company.

Internal control

The Directors assume overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code as updated by the Turnbull Committee in October 2005. The controls are designed to identify and manage risks faced by the Group and not to totally eliminate the risk of failure to achieve business objectives. To this end internal controls provide reasonable, but not absolute assurance against material misstatement or loss. The implementation and operation of such systems has been delegated to the Property Manager and the processes are communicated regularly to all of their staff who are made aware of the areas for which they are responsible. Such systems include strategic planning, the appointment of appropriately qualified staff, regular reporting and monitoring of performance and effective control over capital expenditure and investment.

Corporate Governance Review

continued

The Group's key internal controls are centred on a system of comprehensive reporting on all of its business activities. The Property Manager meets on a monthly basis to review the control systems and to assess the performance and position of the Group. A separate risk management process is operated that engages the Directors and senior management of the Company and Property Manager that is aimed at identifying areas of risk faced by the Group and assessing the likely impact on operating activities. Significant risks that are identified by this process are communicated to the Board with recommendations for actions to mitigate them. The Group uses independent agents to undertake any specialist analysis, investigation or action that is needed.

Internal financial controls centre on a clearly defined set of control procedures and a comprehensive monthly and quarterly reporting structure. Detailed revenue, cash flow and capital forecasts are prepared for each asset and updated regularly throughout the year and reviewed by the Property Manager and the Board. The Property Manager agreement sets out clearly defined guidelines for all asset transactions. These require the approval of the Investment Committee of the Property Manager and then of the Board within defined levels of authority and de-minimis thresholds.

The Property Manager undertakes responsibility for the management of the Group's property portfolio, delegating this responsibility to appropriately qualified independent parties where it is deemed necessary. Terms of engagement for such appointments include the requirement for regular reports in an agreed form.

The Audit Committee is responsible for reviewing the effectiveness of the system of internal financial control. A review of these processes is conducted on a regular basis and any significant issues raised by this review are communicated to the Board for their consideration.

In accordance with the procedures outlined in this report, the Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2007. The review took account of material developments that have taken place since the year end and considered the need for an internal audit function. The Board resolved that due to the size of the Company an internal audit function would be inappropriate but will review this need on an annual basis.

Shareholder relations

The Board encourages active communication with all of the Company's shareholders. The Chief Executive and Chief Financial Officer of the Property Manager are the main points of contact for shareholders and they endeavour to respond to enquiries on a timely basis either verbally or in writing. Provision is made on the Company's website for enquiries to be made of Directors.

As part of the communication process a series of meetings is held between the Property Manager and significant shareholders throughout the year. Directors are invited to attend these meetings and are available should shareholders request their attendance. All shareholders have at least 20 working days' notice of the Annual General Meeting, at which all Directors and committee chairmen are introduced and available for questions.

Throughout the year meetings are held with the Company's brokers and other corporate advisors to feed back information that they have gathered concerning shareholder opinion. Topics raised at other meetings are communicated to the Board and discussed at subsequent Board meetings.

Going concern

After making enquiries, the view of the Directors is that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Performance evaluation

The Property Manager agreement provides for a formal process of performance evaluation that is based on the collective performance of the Manager rather than on an individual's performance. These performance criteria are based on financial measures over the life of the Property Manager Agreement. In addition, procedures are in place to review the approach and resources applied by the Property Manager and its performance throughout the year.

Procedures are also in place that enables the Board to appraise the performance of and level of fees paid to the Administrator and the Company's professional advisors.

Statement of compliance

The Board looks to comply as best as possible with compliance with the provisions of the Combined Code throughout the period under review. With the exception of the provisions listed below and in the Remuneration Report, the Company has complied throughout the period ended 31 December 2007 with the provisions set out in Section 1 of the Code.

As allowed by provision A.4.1, no Nominations Committee was formed due to the small number of Directors forming the Board.

Code provision A.7.1 requires that non-executive appointments are for a fixed term. The Board is of the view that this would be inappropriate for each of the non-executive Directors due the nature of the management of the Company. The Articles of the Company do provide for the retirement by rotation of a third of the Board each year.

Due to its contractual relationship with the Property Manager and the non-executive status of each member of the Board no Remuneration Committee was formed as required by provision B.2.1

Details of the Director seeking re-election at the Company's Annual General Meeting can be found on page 18.

Quentin Spicer

Chairman

26 March 2008

Directors' Remuneration Report

The Directors present their report on their remuneration and that of the Property Manager (the "Report") that has been prepared in accordance with commonly accepted practice.

The Report is to be approved at the Annual General Meeting of the Company at which the financial statements will be approved and a resolution to this effect will be proposed at the Meeting.

The Report has been divided into two sections, one for information that is subject to audit by the Company's Auditors and one that is not.

Unaudited information

Non-executive Directors

All non-executive Directors have specific terms of appointment that include their membership of the Audit Committee and the fee payable to them for their services. Their remuneration is determined by the Board in accordance with the Articles of Association of the Company. Such fees are reviewed annually with regard to a Director's performance and those fees paid to non-executive directors of similar companies.

Non-executive Directors do not participate in the Warrant Instrument.

Details of the terms of appointment for those who served as non-executive Directors during the year are:

Table 5 – Non-executive Directors' service contracts

	Contract date	Term	Notice period
Mr Quentin Spicer	9 February 2006	Indefinite	90 days
Mr Michael Stockwell	3 February 2006	Indefinite	90 days
Mrs Shelagh Mason	3 February 2006	Indefinite	90 days
Dr Helmut Tomanec	3 February 2006	Indefinite	90 days

Property Manager

On signing the Property Manager Agreement, the Company looked to structure a remuneration package that combined a basic fee element with performance related rewards that motivate the Property Manager and aligns their interests with the performance and growth of the business and the long-term enhancement of shareholder value.

The Property Manager remuneration package comprises three main elements:

Basic fee

In consideration of the services to be provided by AMC, AMC will receive an annual management fee of 2% of the previous year's closing NAV (less any uninvested net proceeds of the IPO or any subsequent equity capital raising) subject to a minimum fee in each of the two periods to 31 December 2007 equivalent to an annual payment of €4.6 million.

In addition, AMC is entitled to be reimbursed by the Company for all costs and expenses incurred by it in the performance of its obligations under the Property Management Agreement (not including its own internal operating costs).

Performance fee

In addition, AMC will receive a performance fee payable if the Total Shareholder Return in any year exceeds 12% (adjusted to make up for any prior years where the Total Shareholder Return was negative – the "Hurdle Rate"). Once this threshold is exceeded, AMC is entitled to receive a fee equal to 25% of the amount by which the Total Shareholder Return for the relevant financial period exceeds the Hurdle Rate for such period multiplied by the previous year's closing NAV after the deduction of any dividends declared or to be declared but not yet paid in respect of that period.

One third of any performance fee payable to AMC under the agreement may, at the option of the Company, be paid in the form of new ordinary shares issued to AMC at a price equal to the average closing price of the Company's shares for the 45 days prior to the date of issue of such shares. This option may not be exercised where it would trigger an obligation to make a mandatory offer for the Company pursuant to the City Code.

Term and Termination

The Property Management Agreement is to run for an initial seven year term and may be terminated thereafter on 12 months' notice by either party. The agreement may be terminated at any time for reasons of material breach by either party not remedied within a 90 day period (21 days if the breach relates to non-payment of sums due to the Property Manager) or on the insolvency of either party. The Company may also terminate the Agreement in the event that any of the AMC Shareholders sells (other than to certain categories of intra-group permitted transferees) more than 49% of their respective shareholdings in AMC as at the date of Admission or in the event that the AMC Shareholders (or their permitted transferees) between them cease to own collectively at least 75% of the issued share capital of AMC. The Company also has the right to terminate the agreement in the event that it becomes tax resident in the United Kingdom for any reason. Upon termination of this Agreement, the Manager shall be entitled to receive all fees and other moneys entitled to it (and unpaid) and a performance fee.

Share schemes

On 23 February 2006 the Company executed and adopted a Warrant Instrument providing for the issue of warrants over 5,114,153 ordinary shares. Following the exercise of the Greenshoe on 15 March 2006, an additional Warrant Instrument was executed and adopted to provide for the issue of warrants over a further 373,965 ordinary shares. The Warrants are exercisable during the period commencing 1 March 2006 and expiring on the earlier of: (i) 28 February 2013; or, (ii) upon an offeror becoming entitled to acquire the entire issued share capital of the Company.

The exercise price of each of the Warrants is €5 (five euros). The exercise price and number of ordinary shares relating to such Warrants will be subject to adjustment in respect of dilution events, including the payment by the Company of cash or special dividends, any amalgamation, reorganisation, reclassification, consolidation, merger or sale of all or substantially all of the Group's assets and other dilutive events. The Warrants are freely transferable.

Audited information

The total amounts for Directors' remuneration were as follows:

Table 6 – Directors' emoluments – representing fees only

	2007 €
Non-executive Directors	
Mr Quentin Spicer	64,083
Mr Michael John Stockwell	60,705
Mrs Shelagh Mason	53,459
Dr Helmut Tomanec	53,031
Total	231,278

Table 7 – Warrants issued

	Granted	Transferred	At 31 Dec 2007	Date of grant	Date exercisable
Rafael Berber	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Roni Izaki	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Dori Dankner	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Gadi Dankner	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
D Saradhi Rajan	306,849	(98,786)	208,063	24 February 2006	1 March 2007
	306,849	(98,786)	208,063	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Lou Silver	–	98,786	98,786	–	1 March 2007
	–	98,786	98,786	–	1 March 2008
Atlas Management Company Limited	511,416	–	511,416	24 February 2006	1 March 2007
	511,416	–	511,416	24 February 2006	1 March 2008
	511,416	–	511,416	24 February 2006	1 March 2009
	511,415	–	511,415	24 February 2006	1 March 2010
	37,396	–	37,396	20 March 2006	1 March 2007
	37,396	–	37,396	20 March 2006	1 March 2008
	37,396	–	37,396	20 March 2006	1 March 2009
	37,397	–	37,397	20 March 2006	1 March 2010

Directors' Remuneration Report

continued

The Warrants have been issued at nil cost to the recipients. There are no performance criteria for execution and execution can be undertaken on or after the date of exercise as detailed above or immediately upon a Change of Control of the Company. None of the terms and conditions of the Warrants has been varied in the period.

No Directors have been issued Warrants over the shares in any other Group company.

During the period to 31 December 2007, the market price of the ordinary shares ranged between £3.59 and £2.26.

Approval

The Board approved the Remuneration Report without amendment. This report was approved by the Board of Directors on 26 March 2008 and signed on its behalf by:

Quentin Spicer

Chairman

26 March 2008

Independent Auditors' Report to the members of Atlas Estates Limited

We have audited the consolidated financial statements of Atlas Estates Limited for the year ended 31 December 2007 which comprise the Company and Consolidated Income Statements, the Company and Consolidated Balance Sheets, the Company and Consolidated Statements of Changes in Equity, the Company and Consolidated Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 64 of The Companies (Guernsey) Law, 1994 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Group 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 contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Introduction, the Chairman's Statement, the Review of the Property Manager, the Property Portfolio Information, the Directors, the Advisors, the Directors' Report, the Corporate Governance Review, and the Directors' Remuneration Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 and Group'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, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Company's and Group's affairs as at 31 December 2007 and of the Company's loss and the Group's profit and Company's and Group's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers CI LLP

Chartered Accountants

Guernsey, Channel Islands

26 March 2008

Directors' Report

The Directors present their report and the audited financial statements for the 12 months ended 31 December 2007.

Results and dividends

The results for the Group and Company for the period are set out in the income statements on page 32 and show a profit after tax attributable to equity shareholders of €8.2 million (2006: loss after tax of €10.7 million).

The Company paid a second dividend for 2006 of 8.32 eurocents per share in June 2007. The Company declared an interim dividend for 2007 of 8.32 eurocents per share, which was paid in October 2007 and the Company intends to pay a further dividend for 2007 of 16.68 eurocents per share. This takes the total dividend for the year to 25 eurocents per share, representing an annualised yield of 5%, based upon the initial flotation price of €5 per share.

Activities and review of business

The Company was admitted to the AIM market of the London Stock Exchange and commenced trading on 1 March 2006 and a listing on the Warsaw Stock Exchange was completed on 12 February 2008. The Company is domiciled in Guernsey as a closed-ended investment company under Guernsey Law.

The principal activity of the Company is property investment and development throughout CEE, together with the management of its properties. The development of the Company's business and future prospects is considered in the Chairman's statement on pages 2 to 5 and the Property Manager's Report on pages 6 to 9.

Business environment

GDP growth throughout CEE has consistently outperformed that of Western Europe, with the exception of the Republic of Ireland and Greece. This trend is forecast to continue into the foreseeable future as the region's economies continue to expand and develop.

Membership of the EU and greater personal wealth created both domestically and as a result of population movements and the growing emergence of business activity in capital and other cities, has produced a vibrant real estate market in the region.

Yields on investment properties have compressed over recent years but are still above those of comparable assets in Western Europe. Capital values continue to increase as yields reduce further, but underlying rental values are still some way behind those of more mature real estate markets. In most cities in the region, rents show signs of increasing, underpinned by a strong demand for quality space.

Trends in the region have moved away from the older, existing stock and towards newer, western-style developments. This provides opportunities for companies with development capabilities to exploit the need for new premises with pre-lets now more readily available. The sector specific demand varies from country to country but, across the region, a shift towards regional centres as an alternative to the capital cities is also becoming apparent.

In addition to a strong environment for commercial property, there is also a growing demand for new, modern living accommodation. As residents have more disposable income and mortgage finance becomes more readily available, there is an increasing desire to move away from old, outdated apartment blocks. This is helping to increase sales prices for all apartment types and related space.

Strategy

Focus on residential development projects

Taking into consideration current market trends and the demand for apartments and houses in the region, the Company Estates Group intends to concentrate on residential development projects. While implementing this strategy the Group will concentrate mostly on apartments intended for middle-class buyers. As the Directors believe that undersupply exists both in capital cities and other cities, the Group intends to strengthen its position in non-capital cities, where development lands can be sourced in a less competitive environment. Residential projects will be evaluated on a case-by-case basis, taking into account the risk level and the profitability of the projects.

While concentrating on residential developments as its primary focus, the Group will also undertake retail, commercial and office development projects where such projects offer an appropriate rate of return. Where the Group undertakes a development of income-producing property, it will be inclined to keep such property within its portfolio, so as to enjoy the rental income stream resulting therefrom.

Development of residential and non-residential space will be evaluated taking into account local demand and profit margins in each of the countries and cities in which the Group operates. Margins tend to vary between different countries and cities based on economic cycles and the relative maturity of the given market. The Group constantly monitors and evaluates the different markets and opportunities.

Continuity of development activity

In order to maintain stable levels of apartment sales and thus, to the extent possible, stable levels of cash flow, the Group intends to have at all times developments in the various stages (zoning and planning, design, construction, sales, and delivery). Consequently, and given the constant rise in prices of land in the CEE region, the Group intends to develop a land bank which will permit the realisation of development projects for the next few years of the Group's operations.

Acquisition of income producing assets

In order to ensure a steady stream of rental income, the Group intends to continue to acquire office buildings. The Group does not intend to necessarily invest in prime A-class office space in the most prestigious locations, such investments suffer from low yields driven by strong competition. The Group's strategy is to achieve superior returns by investing in market segments which have less competition and by executing transactions which require more complicated structuring, which the Group is able to accommodate. This strategy is based on an assumption that commercial development in the CEE region creates growing demand for high-quality office space which is affordable for local businesses. The Group also plans to purchase buildings which may be used as hotels. In accordance with its practice thus far as regards these types of assets, the Group intends to retain experienced third-party entities to manage such properties. When purchasing the hotel assets, the Group will take into consideration the attractiveness of the given location, as well as the local demand for hotel beds. The Group may also consider purchasing real estate intended for other purposes (such as logistic centres), if it deems such investment attractive in light of the available market information.

Diversification

In order to hedge against risks, the Group intends to maintain a diversified portfolio of real estate investments. The diversification will have three aspects: firstly, the Group intends to diversify its geographical reach by investing in various countries in the CEE region; secondly, the Group intends to diversify the type of investment (e.g. residential development, office, commercial, etc.); thirdly the Group intends to stagger the development phases of its various projects (e.g. the purchase of land, the design phase, the construction phase, the marketing and sale process) in order to maintain stable levels of income earned.

As at 31 December 2007, the Company has investment assets in Poland, Hungary, Slovakia, Romania and Bulgaria, but the Company intends to use its experiences in other dynamically developing markets. This strategy will allow the Group to further geographically diversify its operations and achieve an appropriate scale of its operations. The Group also intends to continue its strategy of investing in non-capital cities in the countries in which it operates.

Key performance Indicators

Key performance indicators vary between the different areas of the Group's business.

The success of developing and selling residential apartments will be measured in terms of the price achieved for each apartment, the profit margin earned over construction cost and as a proportion of sales and the overall rate of return from a development. Information on sales is detailed in the Property Manager's Review on pages 6 to 9. All apartments to date have been sold at prices in excess of the initial budget. However as sales have so far been 'off plan' and developments are so far incomplete, no comprehensive margin or return data has been capable of being prepared.

For yielding assets the measure of the yield of an asset relative to its cost to the Group is of key importance. Also the overall valuation of the portfolio will drive the value to the Company and ultimately the Company's share price. Details of total return targets and increases in net asset value per share are included within the Chairman's Statement and Property Managers Review.

The key financial risk policies are stated within the financial sections of this report on pages 42 to 44.

Substantial shareholdings

At 12 March 2008, the following shareholders had notified the Company of an interest in 3% or more of its ordinary share capital:

Table 1 – Notifiable interests

Shareholder	Number of shares	%
Livermore	9,579,345	21.28
Brown Brothers	6,594,509	14.60
Elran (D.D.) Real Estate Limited	4,097,509	9.10
Apollo Nominees Limited	4,373,326	9.03
CIBC World Market Corporation	3,857,649	8.60
Rathbone Brothers Plc	3,989,967	8.24
Henderson Global Investors Limited	3,070,000	6.34
Fibi Bank	2,488,465	5.50
Laxey Partners Limited	2,258,598	5.02
Stitching Pensionenfonds	1,600,000	3.60
Merrill Lynch & Co. Inc.	1,546,396	3.19
Total		94.50

Directors' Report

continued

Purchase of own shares

By a resolution passed on 25 July 2007, shareholders granted the Directors the authority to purchase a maximum of 14.99% of the Company's own shares. These may be purchased at a minimum of €0.01 per share and a maximum of no more than 5% above the average mid-market price as derived from the Daily Official List for the five business days preceding the purchase.

The Company's shares have traded at a price that the Directors have considered to be below their true value. The Directors have felt it appropriate to buy back the Company's shares at a discount to their underlying value. A total of 3,470,000 shares have been bought back under the authority detailed above, at an average price of 315 pence per share.

Directors and Directors' share interests

The Directors who served during the year are detailed in Table 2 below. No Director had any direct interest in the share capital of the Company or any of its subsidiaries during the year. Mr Spicer acquired a beneficial interest in 14,785 shares in the Company in 2007.

Table 2 – Directors

Mr Quentin Spicer	Appointed 9 February 2006
Mr Michael Stockwell	Appointed 3 February 2006
Mrs Shelagh Mason	Appointed 3 February 2006
Dr Helmut Tomanec	Appointed 3 February 2006

Biographical details for all Directors are set out on pages 18 and 19.

The Directors retire by rotation and Dr Tomanec, being so entitled and willing, offers himself for re-appointment at the forthcoming Annual General Meeting.

Directors' responsibilities

Guernsey company law requires that Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the results of the Company and the Group for that period. In preparing those financial statements, the Directors are required to:

- » select suitable accounting policies and then apply them consistently;
- » make judgements and estimates that are reasonable and prudent;
- » ensure the financial statements comply with IFRS as adopted by the EU; and
- » prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company or the Group will continue in business.

The directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Company and the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

Company website

To provide a portal for investor information and in accordance with the requirements of AIM, the Company maintains a website accessed at www.atlasestates.com.

The Directors are responsible for the maintenance and integrity of the website. There is, however, some uncertainty regarding the legal requirements of the website as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Auditors

The Directors confirm that as at 26 March 2008:

- » So far as they are aware, there is no relevant information (that is, information needed by the Company's or the Group's auditors, in connection with preparing their report) of which the Company's or the Group's auditors are unaware.
- » The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's and the Group's auditors are aware of that information.
- » The auditing firm (qualified auditor of financial statements) who audited the consolidated annual financial statements has been selected in compliance with the provisions of the law and that this firm and the qualified auditors who performed the audit met the conditions to issue an impartial and independent opinion from the audit in accordance with the applicable provisions of national law.

The stand-alone financial statements of the Company and the consolidated financial statements of the Group for 2007 were audited by PricewaterhouseCoopers CI LLP on the basis of a contract concluded on 5 December 2007.

The total fees specified in the contract with the audit company, payable or paid for an audit and review of the financial statements and for other services are presented below:

Table 3 – Audit company-fees

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Audit of stand-alone and consolidated financial statements	622	605	246	71
Review of stand-alone and consolidated financial statements	151	–	151	–
Other services	1,200	77	–	–
Total	1,973	682	397	71

A resolution concerning the re-appointment of PricewaterhouseCoopers CI LLP as auditors and their remuneration will be submitted to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 25 June 2008.

Quentin Spicer

Chairman

Shelagh Mason

Director

26 March 2008

Corporate Governance Review

The Company aspires to apply the highest possible standards of corporate governance in all areas of its business. The Board and where delegated, the Property Manager, are developing a comprehensive system of controls, checks and reporting requirements that they feel will provide the ability to maintain these standards. The systems mentioned are being designed to meet the requirements of the Company and its business and to assess and manage the opportunities and risks that may arise. Whilst the Board is mindful of the guidance of the Combined Code wherever possible, its systems will be suitable for a Company of its size, the small number of Directors that form the Board and the external management function provided by the Property Manager.

Structure and membership of the Company's Board

The Board of Directors comprises the non-executive Chairman and three further non-executive Directors. There is a clear separation of the role of the Chairman and the Property Manager, governed by the Property Management Agreement that was entered into on 24 February 2006.

The Board identifies all of its non-executive Directors as being independent of the Company based on their level of involvement with the founder shareholders prior to the formation of the Group and their involvement in the day-to-day management of the Group on an ongoing basis. They provide strategic management and act as the final Investment Committee for all investment/divestment decisions. The executive and day-to-day management is provided by the Property Manager whose role and responsibilities are clearly defined in the Property Manager Agreement.

The Board meets formally at least four times a year and regular contact is made between the Board and the Property Manager in the intervening periods. The Directors meet periodically without the Property Manager present and on occasion without the presence of the Chairman.

A formal schedule of matters reserved specifically for the Board's decision is approved and reviewed on an ongoing basis by the Board. Such matters include, but are not limited to:

- » developing Group strategy and monitoring the progress towards objectives set for management;
- » reviewing the Company's capital, operating and management structures;
- » setting the system of internal and financial controls and accounting policies;
- » communicating the aims and objectives of the Company to shareholders; and
- » ensuring that the Group has effective risk management procedures in operation at all times.

A formal schedule of matters reserved for the Board of the Property Manager is also approved and reviewed on an ongoing basis by the Board.

All members of the Board have access to the advice and services of the Company's Administrator and full and timely access to all relevant information in an appropriate form and of sufficient quality to enable them to discharge their duties and responsibilities. Guidance is provided to Directors on obtaining independent professional advice when necessary and the Company maintains a comprehensive directors' and officers' liability insurance policy.

Appointments to the Board are subject to a formal process of selection involving the Board as a whole. The Directors are appointed for indefinite terms and a third of the Board retire by rotation each year. Directors' terms of appointment provide for prior approval of the Board for the acceptance of any outside appointments. In the event of a request for approval the Director in question is asked to confirm and demonstrate that they can continue to commit sufficient time to the fulfilment of their duties.

Board committees

The Audit Committee comprises the whole of the Board and is chaired by Mr Stockwell. It meets at least three times a year to review the interim and year end financial statements prior to their submission to the Board and to review the appointment of the auditors and the scope, performance and remuneration of services provided by them. Procedures are in place for the approval of non-audit services provided by the Company's auditors.

The entire Board also forms the Investment Committee in order to appraise and approve or reject investment proposals made by the Property Manager. The Investment Committee meets as and when required.

The Company has not formed a separate Remuneration or Nominations Committee as the Property Manager Agreement provides for the remuneration of the Manager and the Board as a whole considers any further appointments.

Table 4 – Attendance at meetings

	Board meetings	Committee meetings	
		Audit	Investment
Number of meetings in the year	14	3	7
Mr Quentin Spicer	12	3	6
Mr Michael Stockwell	10	2	5
Mrs Shelagh Mason	13	3	5
Dr Helmut Tomanec	9	1	5

Directors' responsibilities

Guernsey company law requires that the Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the result of the Group for that period. In preparing those financial statements, the Directors are required to:

- » select suitable accounting policies and apply them consistently;
- » make judgements and estimates that are reasonable and prudent;
- » ensure the financial statements comply with IFRS as adopted by the EU; and
- » Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Company and the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Property Manager

The Property Manager has also undertaken to maintain the highest standards of corporate governance in line with the direction set by the Board. Where delegated, the Property Manager has continued to put in place a comprehensive system of controls, checks and reporting requirements that they feel provides the ability to maintain these standards.

The Property Manager has a board ("PM board") comprising of a non-executive Chairman and four further non-executive directors. It meets formally at least four times a year and more regularly when required to do so to review its requirements under the terms of the Property Manager Agreement. A formal schedule of matters reserved for the decision of the PM board, derived from the role and responsibilities set out in the Agreement has been approved and is reviewed on an ongoing basis.

The Property Manager has appointed an Investment Committee comprising four of its Non-executive Directors to review and approve those investment and divestment opportunities that are presented to the Company for its approval and completion. The PM board collectively approves the appointment of senior management within the Property Manager, details of which are then reported to the Company.

Internal control

The Directors assume overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code as updated by the Turnbull Committee in October 2005. The controls are designed to identify and manage risks faced by the Group and not to totally eliminate the risk of failure to achieve business objectives. To this end internal controls provide reasonable, but not absolute assurance against material misstatement or loss. The implementation and operation of such systems has been delegated to the Property Manager and the processes are communicated regularly to all of their staff who are made aware of the areas for which they are responsible. Such systems include strategic planning, the appointment of appropriately qualified staff, regular reporting and monitoring of performance and effective control over capital expenditure and investment.

Corporate Governance Review

continued

The Group's key internal controls are centred on a system of comprehensive reporting on all of its business activities. The Property Manager meets on a monthly basis to review the control systems and to assess the performance and position of the Group. A separate risk management process is operated that engages the Directors and senior management of the Company and Property Manager that is aimed at identifying areas of risk faced by the Group and assessing the likely impact on operating activities. Significant risks that are identified by this process are communicated to the Board with recommendations for actions to mitigate them. The Group uses independent agents to undertake any specialist analysis, investigation or action that is needed.

Internal financial controls centre on a clearly defined set of control procedures and a comprehensive monthly and quarterly reporting structure. Detailed revenue, cash flow and capital forecasts are prepared for each asset and updated regularly throughout the year and reviewed by the Property Manager and the Board. The Property Manager agreement sets out clearly defined guidelines for all asset transactions. These require the approval of the Investment Committee of the Property Manager and then of the Board within defined levels of authority and de-minimis thresholds.

The Property Manager undertakes responsibility for the management of the Group's property portfolio, delegating this responsibility to appropriately qualified independent parties where it is deemed necessary. Terms of engagement for such appointments include the requirement for regular reports in an agreed form.

The Audit Committee is responsible for reviewing the effectiveness of the system of internal financial control. A review of these processes is conducted on a regular basis and any significant issues raised by this review are communicated to the Board for their consideration.

In accordance with the procedures outlined in this report, the Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2007. The review took account of material developments that have taken place since the year end and considered the need for an internal audit function. The Board resolved that due to the size of the Company an internal audit function would be inappropriate but will review this need on an annual basis.

Shareholder relations

The Board encourages active communication with all of the Company's shareholders. The Chief Executive and Chief Financial Officer of the Property Manager are the main points of contact for shareholders and they endeavour to respond to enquiries on a timely basis either verbally or in writing. Provision is made on the Company's website for enquiries to be made of Directors.

As part of the communication process a series of meetings is held between the Property Manager and significant shareholders throughout the year. Directors are invited to attend these meetings and are available should shareholders request their attendance. All shareholders have at least 20 working days' notice of the Annual General Meeting, at which all Directors and committee chairmen are introduced and available for questions.

Throughout the year meetings are held with the Company's brokers and other corporate advisors to feed back information that they have gathered concerning shareholder opinion. Topics raised at other meetings are communicated to the Board and discussed at subsequent Board meetings.

Going concern

After making enquiries, the view of the Directors is that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Performance evaluation

The Property Manager agreement provides for a formal process of performance evaluation that is based on the collective performance of the Manager rather than on an individual's performance. These performance criteria are based on financial measures over the life of the Property Manager Agreement. In addition, procedures are in place to review the approach and resources applied by the Property Manager and its performance throughout the year.

Procedures are also in place that enables the Board to appraise the performance of and level of fees paid to the Administrator and the Company's professional advisors.

Statement of compliance

The Board looks to comply as best as possible with compliance with the provisions of the Combined Code throughout the period under review. With the exception of the provisions listed below and in the Remuneration Report, the Company has complied throughout the period ended 31 December 2007 with the provisions set out in Section 1 of the Code.

As allowed by provision A.4.1, no Nominations Committee was formed due to the small number of Directors forming the Board.

Code provision A.7.1 requires that non-executive appointments are for a fixed term. The Board is of the view that this would be inappropriate for each of the Non-executive Directors due the nature of the management of the Company. The Articles of the Company do provide for the retirement by rotation of a third of the Board each year.

Due to its contractual relationship with the Property Manager and the non-executive status of each member of the Board no Remuneration Committee was formed as required by provision B.2.1

Details of the Directors seeking re-election at the Company's Annual General Meeting can be found on page 18.

Quentin Spicer

Chairman

26 March 2008

Directors' Remuneration Report

The Directors present their report on their remuneration and that of the Property Manager (the 'Report') that has been prepared in accordance with commonly accepted practice.

The Report is to be approved at the Annual General Meeting of the Company at which the financial statements will be approved and a resolution to this effect will be proposed at the Meeting.

The Report has been divided into two sections, one for information that is subject to audit by the Company's Auditors and one that is not.

Unaudited information

Non-executive Directors

All non-executive Directors have specific terms of appointment that include their membership of the Audit Committee and the fee payable to them for their services. Their remuneration is determined by the Board in accordance with the Articles of Association of the Company. Such fees are reviewed annually with regard to a Director's performance and those fees paid to non-executive directors of similar companies.

Non-executive Directors do not participate in the Warrant Instrument.

Details of the terms of appointment for those who served as Non-executive Directors during the year are:

Table 5 – Non-executive Directors' service contracts

	Contract date	Term	Notice period
Mr Quentin Spicer	9 February 2006	Indefinite	90 days
Mr Michael Stockwell	3 February 2006	Indefinite	90 days
Mrs Shelagh Mason	3 February 2006	Indefinite	90 days
Dr Helmut Tomanec	3 February 2006	Indefinite	90 days

Property Manager

On signing the Property Manager Agreement, the Company looked to structure a remuneration package that combined a basic fee element with performance related rewards that motivate the Property Manager and aligns their interests with the performance and growth of the business and the long-term enhancement of shareholder value.

The Property Manager remuneration package comprises three main elements:

Basic fee

In consideration of the services to be provided by AMC, AMC will receive an annual management fee of 2% of the previous year's closing NAV (less any uninvested net proceeds of the IPO or any subsequent equity capital raising) subject to a minimum fee in each of the two periods to 31 December 2007 equivalent to an annual payment of €4.6 million.

In addition, AMC is entitled to be reimbursed by the Company for all costs and expenses incurred by it in the performance of its obligations under the Property Management Agreement (not including its own internal operating costs).

Performance fee

In addition, AMC will receive a performance fee payable if the Total Shareholder Return in any year exceeds 12% (adjusted to make up for any prior years where the Total Shareholder Return was negative – the 'Hurdle Rate'). Once this threshold is exceeded, AMC is entitled to receive a fee equal to 25% of the amount by which the Total Shareholder Return for the relevant financial period exceeds the Hurdle Rate for such period multiplied by the previous year's closing NAV after the deduction of any dividends declared or to be declared but not yet paid in respect of that period.

One third of any performance fee payable to AMC under the agreement may, at the option of the Company, be paid in the form of new ordinary shares issued to AMC at a price equal to the average closing price of the Company's shares for the 45 days prior to the date of issue of such shares. This option may not be exercised where it would trigger an obligation to make a mandatory offer for the Company pursuant to the City Code.

Term and Termination

The Property Management Agreement is to run for an initial seven year term and may be terminated thereafter on 12 months' notice by either party. The agreement may be terminated at any time for reasons of material breach by either party not remedied within a 90 day period (21 days if the breach relates to non-payment of sums due to the Property Manager) or on the insolvency of either party. The Company may also terminate the Agreement in the event that any of the AMC Shareholders sells (other than to certain categories of intra-group permitted transferees) more than 49% of their respective shareholdings in AMC as at the date of Admission or in the event that the AMC Shareholders (or their permitted transferees) between them cease to own collectively at least 75% of the issued share capital of AMC. The Company also has the right to terminate the agreement in the event that it becomes tax resident in the United Kingdom for any reason. Upon termination of this Agreement, the Manager shall be entitled to receive all fees and other moneys entitled to it (and unpaid) and a performance fee.

Share schemes

On 23 February 2006 the Company executed and adopted a Warrant Instrument providing for the issue of warrants over 5,114,153 ordinary shares. Following the exercise of the Greenshoe on 15 March 2006, an additional Warrant Instrument was executed and adopted to provide for the issue of warrants over a further 373,965 ordinary shares. The Warrants are exercisable during the period commencing 1 March 2006 and expiring on the earlier of: (i) 28 February 2013; or, (ii) upon an offeror becoming entitled to acquire the entire issued share capital of the Company.

The exercise price of each of the Warrants is €5 (five euros). The exercise price and number of ordinary shares relating to such Warrants will be subject to adjustment in respect of dilution events, including the payment by the Company of cash or special dividends, any amalgamation, reorganisation, reclassification, consolidation, merger or sale of all or substantially all of the Group's assets and other dilutive events. The Warrants are freely transferable.

Audited information

The total amounts for Directors' remuneration were as follows:

Table 6 – Directors' emoluments – representing fees only

	2007 €
Non-executive Directors	
Mr Quentin Spicer	64,083
Mr Michael John Stockwell	60,705
Mrs Shelagh Mason	53,459
Dr Helmut Tomanec	53,031
Total	231,278

Table 7 – Warrants issued

	Granted	Transferred	At 31 Dec 2007	Date of grant	Date exercisable
Rafael Berber	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Roni Izaki	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Dori Dankner	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Gadi Dankner	306,849	–	306,849	24 February 2006	1 March 2007
	306,849	–	306,849	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
D Saradhi Rajan	306,849	(98,786)	208,063	24 February 2006	1 March 2007
	306,849	(98,786)	208,063	24 February 2006	1 March 2008
	22,438	–	22,438	20 March 2006	1 March 2007
	22,438	–	22,438	20 March 2006	1 March 2008
Lou Silver	–	98,786	98,786	–	1 March 2007
	–	98,786	98,786	–	1 March 2008
Atlas Management Company Limited	511,416	–	511,416	24 February 2006	1 March 2007
	511,416	–	511,416	24 February 2006	1 March 2008
	511,416	–	511,416	24 February 2006	1 March 2009
	511,415	–	511,415	24 February 2006	1 March 2010
	37,396	–	37,396	20 March 2006	1 March 2007
	37,396	–	37,396	20 March 2006	1 March 2008
	37,396	–	37,396	20 March 2006	1 March 2009
	37,397	–	37,397	20 March 2006	1 March 2010

Directors' Remuneration Report

continued

The Warrants have been issued at nil cost to the recipients. There are no performance criteria for execution and execution can be undertaken on or after the date of exercise as detailed above or immediately upon a Change of Control of the Company. None of the terms and conditions of the Warrants has been varied in the period.

No Directors have been issued Warrants over the shares in any other Group company.

During the period to 31 December 2007, the market price of the ordinary shares ranged between £3.59 and £2.26.

Approval

The Board approved the Remuneration Report without amendment. This report was approved by the Board of Directors on 26 March 2008 and signed on its behalf by:

Quentin Spicer

Chairman

26 March 2008

Independent Auditors' Report to the members of Atlas Estates Limited

We have audited the consolidated financial statements of Atlas Estates Limited for the year ended 31 December 2007 which comprise the Company and Consolidated Income Statements, the Company and Consolidated Balance Sheets, the Company and Consolidated Statements of Changes in Equity, the Company and Consolidated Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 64 of The Companies (Guernsey) Law, 1994 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Group 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 contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Introduction, the Chairman's Statement, the Review of the Property Manager, the Property Portfolio Information, the Directors, the Advisors, the Directors' Report, the Corporate Governance Review, and the Directors' Remuneration Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 and Group'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, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Company's and Group's affairs as at 31 December 2007 and of the Company's loss and the Group's profit and Company's and Group's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers CI LLP

Chartered Accountants
Guernsey, Channel Islands

26 March 2008

Consolidated Income Statement

For the Year ended 31 December 2007

	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000	Notes
Revenues	27,375	5,321	–	–	3
Cost of operations	(19,615)	(4,739)	–	–	4.1
Gross profit	7,760	582	–	–	
Administrative expenses	(24,317)	(14,774)	(15,399)	(11,037)	4.2
Other operating income	3,513	650	–	–	
Other operating expenses	(6,228)	(580)	(2,109)	–	
Increase in value of investment properties	36,160	5,612	–	–	14
Other gains and (losses) – net	523	(167)	316	(231)	5
Impairment charge in relation to goodwill	(201)	(13,354)	–	–	28
Negative goodwill realised on acquisitions	389	11,398	–	–	28
Operating profit/(loss)	17,599	(10,633)	(17,192)	(11,268)	
Finance cost	(8,042)	(1,663)	(6)	(9)	6
Finance income	1,794	2,507	11,169	6,727	6
Profit/(loss) on ordinary activities before taxation	11,351	(9,789)	(6,029)	(4,550)	
Tax expense	(3,095)	(840)	–	–	7
Profit/(loss) for the period	8,256	(10,629)	(6,029)	(4,550)	
Attributable to:					
Equity shareholders	8,196	(10,690)	(6,029)	(4,550)	
Minority interests	60	61	–	–	
	8,256	(10,629)	(6,029)	(4,550)	
Profit/(loss) per €0.01 ordinary share – basic (eurocents)	17.0	(21.8)	n/a	n/a	9
Profit/(loss) per €0.01 ordinary share – diluted (eurocents)	17.0	(21.8)	n/a	n/a	9

Consolidated Balance Sheet

As at 31 December 2007

	Group 2007 €'000	Group 2006 (Restated) €'000	Company 2007 €'000	Company 2006 €'000	Notes
ASSETS					
Non-current assets					
Intangible assets	942	162	–	–	11
Land under operating lease	18,984	18,422	–	–	12
Property, plant and equipment	113,469	88,818	–	–	13
Investment property	217,040	67,585	–	–	14
Other loans receivable	8,674	327	263	–	18
Deferred tax asset	3,284	1,821	–	–	23
Investment in subsidiaries	–	–	21,220	21,220	16
Loans receivable from subsidiaries	–	–	177,965	173,304	18
	362,393	177,135	199,448	194,524	
Current assets					
Inventory	124,644	99,205	–	–	17
Trade and other receivables	9,602	22,241	142	310	18
Cash and cash equivalents	34,861	62,672	3,232	48,276	19
	169,107	184,118	3,374	48,586	
TOTAL ASSETS	531,500	361,253	202,822	243,110	
Current liabilities					
Trade and other payables	(51,514)	(30,724)	(9,734)	(20,228)	21
Bank loans	(29,822)	(2,892)	–	–	22
	(81,336)	(33,616)	(9,734)	(20,228)	
Non-current liabilities					
Other payables	(8,667)	(6,047)	–	–	21
Bank loans	(188,666)	(76,170)	–	–	22
Deferred tax liabilities	(28,715)	(21,558)	–	–	23
	(226,048)	(103,775)	–	–	
TOTAL LIABILITIES	(307,384)	(137,391)	(9,734)	(20,228)	
NET ASSETS	224,116	223,862	193,088	222,882	
EQUITY					
Share capital	484	484	484	484	24
Revaluation reserve	8,144	2,981	–	–	26
Other distributable reserve	202,320	226,406	202,320	226,406	26
Other reserves	14,060	2,851	–	–	26
Accumulated loss	(1,631)	(10,148)	(9,716)	(4,008)	
Equity attributable to equity holders of the Company	223,377	222,574	193,088	222,882	
Minority interests	739	1,288	–	–	27
TOTAL EQUITY	224,116	223,862	193,088	222,882	
Basic net asset value per share	€4.98	€4.59	n/a	n/a	

The notes on pages 36 to 64 form part of these consolidated financial statements. The financial statements on pages 32 to 64 were approved by the Board of Directors on 26 March 2008 and signed on its behalf by:

Quentin Spicer
Chairman

Shelagh Mason
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

Group	Share capital €'000	Other reserves €'000	Accumulated Loss €'000	Total €'000	Minority interest €'000	Total equity €'000
As at 3 February 2006	–	–	–	–	–	–
Exchange adjustments	–	3,152	–	3,152	(31)	3,121
Revaluation of properties	–	3,680	–	3,680	–	3,680
Deferred tax on exchange adjustments	–	(301)	–	(301)	3	(298)
Deferred tax on revaluation of properties	–	(699)	–	(699)	–	(699)
Net income recognised directly in equity	–	5,832	–	5,832	(28)	5,804
Result for the year	–	–	(10,690)	(10,690)	61	(10,629)
Total recognised income and expense for the year	–	5,832	(10,690)	(4,858)	33	(4,825)
Issue of shares	493	246,472	–	246,965	–	246,965
Costs of issue of shares	–	(14,049)	–	(14,049)	–	(14,049)
Minority arising on acquisition	–	–	–	–	1,255	1,255
Shares bought back and cancelled	(9)	(3,977)	–	(3,986)	–	(3,986)
Share based payments	–	–	542	542	–	542
Dividends paid	–	(2,040)	–	(2,040)	–	(2,040)
As at 31 December 2006	484	232,238	(10,148)	222,574	1,288	223,862
Exchange adjustments	–	11,739	–	11,739	–	11,739
Deferred tax on exchange adjustments	–	(530)	–	(530)	–	(530)
Revaluation of properties	–	4,054	–	4,054	–	4,054
Deferred tax on revaluation of properties	–	1,109	–	1,109	–	1,109
Net income recognised directly in equity	–	16,372	–	16,372	–	16,372
Result for the year	–	–	8,196	8,196	60	8,256
Total recognised income and expense for the year	–	16,372	8,196	24,568	60	24,628
Minority interest	–	–	–	–	(609)	(609)
Shares bought back as Treasury	–	(16,023)	–	(16,023)	–	(16,023)
Share based payments	–	–	321	321	–	321
Dividends paid	–	(8,063)	–	(8,063)	–	(8,063)
As at 31 December 2007	484	224,524	(1,631)	223,377	739	224,116

Company	Share capital €'000	Other reserves €'000	Accumulated loss €'000	Total equity €'000
As at 3 February 2006				
Result for the year	–	–	(4,550)	(4,550)
Issue of shares	493	246,472	–	246,965
Costs of issue of shares	–	(14,049)	–	(14,049)
Shares bought back and cancelled	(9)	(3,977)	–	(3,986)
Share based payments	–	–	542	542
Dividends paid	–	(2,040)	–	(2,040)
As at 31 December 2006	484	226,406	(4,008)	222,882
Result for the year	–	–	(6,029)	(6,029)
Shares bought back as Treasury	–	(16,023)	–	(16,023)
Share based payments	–	–	321	321
Dividends paid	–	(8,063)	–	(8,063)
As at 31 December 2007	484	202,320	(9,716)	193,088

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000
Cash outflow generated from operations	20	(9,953)	(11,741)	(27,460)	(4,910)
Interest received		1,794	2,457	11,169	2,432
Interest paid		(8,042)	(1,592)	(6)	(9)
Tax paid		(29)	(128)	–	–
Net cash outflow from operating activities		(16,230)	(11,004)	(16,297)	(2,487)
Investing activities					
Acquisition of subsidiaries – net of cash acquired		(16,575)	(53,099)	–	(15,712)
Disposal of subsidiary interest		6,951	–	–	–
Amounts placed on escrow in relation to property acquisitions		–	(1,800)	–	–
Deposits paid to secure future property acquisitions		–	(15,024)	–	–
Purchase of investment property		(105,871)	(12,821)	–	–
Purchase of property, plant and equipment		(3,424)	(17,260)	–	–
Proceeds from disposal of property, plant and equipment		12	169	–	–
Purchase of intangible assets – software		(920)	(183)	–	–
Loans to subsidiary undertakings		–	–	(4,662)	(91,860)
Net cash used in investing activities		(119,827)	(100,018)	(4,662)	(107,572)
Financing activities					
Dividends paid		(8,063)	(2,079)	(8,063)	(2,079)
Payments to acquire or redeem the entity's own shares		(16,023)	(3,986)	(16,023)	(3,986)
Share issue costs paid		–	(14,049)	–	(14,049)
Proceeds on issue of shares		–	178,451	–	178,450
New bank loans raised		139,427	10,329	–	–
New loans granted to JV partners		(8,076)	(327)	–	–
New loans received from minority investors		3,608	2,286	–	–
Net cash from/(used in) financing activities		110,873	170,625	(24,086)	158,336
Net (decrease)/increase in cash and cash equivalents in the year		(25,184)	59,603	(45,045)	48,277
Effect of foreign exchange rates on cash balances		(2,627)	3,069	–	–
Net (decrease)/increase in cash and cash equivalents in the year		(27,811)	62,672	(45,045)	48,277
Cash and cash equivalents at the beginning of the year		62,672	–	48,277	–
Cash and cash equivalent at the end of the year		34,861	62,672	3,232	48,277
Cash and cash equivalents					
Cash at bank and in hand		34,861	62,672	3,232	48,277
Bank overdrafts		–	–	–	–
		34,861	62,672	3,232	48,277

Statement of Accounting Policies

Year ended 31 December 2007

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis as amended by the revaluation of investment properties and land and buildings. The comparative financial information is only 11 months to 31 December 2006 because the Group was only formed in February 2006. The principal accounting policies are set out below.

Changes in relation to previously published consolidated financial statements

The comparative information for the 11 months ended as at 31 December 2006 has been restated as follows:

- (i) An additional charge of €700,000 has been made to administrative expenses and corresponding accrual made, in respect of VAT which was determined irrecoverable.
- (ii) An additional deferred tax asset and corresponding credit to tax expense, of €700,000 has been recognised to reflect the benefit of losses that arise in subsidiary companies.
- (iii) Land held under operating leases amounting to €18,422,000 has been shown as a separate line item in the balance sheet. It was previously shown within property, plant and equipment.
- (iv) Administrative expenses of €2,257,000 have been reclassified to cost of operations to aid comparison.

As a result of these changes there has been no change to the net result or net assets of the Group as previously reported.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries up to 31 December 2007. Subsidiaries are those entities that are controlled by the Company. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used into line with those used by the Group.

The interest of minority shareholders is stated at the minority's proportion of the book value of the assets and any liabilities recognised. Any losses incurred in subsequent periods applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The Group reports its interests in joint ventures using proportionate consolidation. The Group's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

The consolidated financial information is prepared in Euro and presented in thousands of Euro ("€'000").

Segmental reporting

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

The Group's primary reporting segments are business activity and its secondary reporting segments are geographical.

Revenue recognition

Revenue comprises:

- (i) rental income, service charge and other recoveries from tenants and the supply of utilities to tenants of the Group's investment and trading properties;
- (ii) sale of hotel rooms, food and beverages; and
- (iii) proceeds of the sale of residential apartments developed by the Group.

Rental income includes income from managed operations such as car parks. Service charges and other recoveries include income in relation to service charges and directly recoverable expenditure and any related chargeable management fees.

Rental income is recognised on a straight line basis over the lease term. Service charges and management fees are recognised as the related costs are incurred and charged. Changes to rental income that arise from reviews to open market rental values or increases that are index linked on a periodic basis are recognised from the date on which the adjustment became due. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property. Lease incentives are allocated evenly over the life of the lease. Rental income and services charges are stated net of VAT and other sales related taxes.

Revenue from the sale of hotel rooms, food and beverages is recognised when the service or product is delivered and is stated net of VAT and other sales related taxes.

Revenue from the sale of housing units is recognised when the risks and rewards of ownership have been transferred to the buyer and provided that the Company has no further substantial acts to complete under the contract.

Other revenues, including the sale of utilities and other management fee income, are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes. These revenues are recognised as the related costs are incurred.

Share based payments

The cost of granting warrants to the Property Manager, its directors and employees is recognised through the income statement. A corresponding entry is made to equity. The Group has used the Black-Scholes option valuation model and the resulting value is amortised through the income statement over the vesting period of the warrants.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in euro, which are the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement for the year. Those that arise on the retranslation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items any exchange component of that gain or loss is also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated using the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

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

Leases

Where the Group is the lessee:

Operating leases – leases held by the Group where substantially all risks and rewards of ownership are retained by another party, the lessor, are deemed to be operating leases. All payments made under such leases are charged to the income statement on a straight-line basis over the life of the lease.

Finance leases – are leases where the Group holds substantially all the risks and rewards of ownership. Such leases are capitalised at commencement of the lease at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges in order that a constant rate may be achieved on the finance balance outstanding. The corresponding rental obligations are included in current and non-current liabilities, net of finance charges. Finance charges are charged to the income statement over the term of the lease so as to produce a constant periodic rate of interest on the outstanding balance. Investment properties acquired under finance leases are carried at their fair value.

Long term lease contracts for land – the Group is the lessee in long-term land lease contracts, which do not result in the transfer of legal title to the land to the Group, and which are classified as operating leases.

The expenditure relating to the purchase of rights from such contracts are initially recognised in the balance sheet at fair value of the payments made and are classified in accordance with the designated use of the individual property (inventory, investment property or separate balance sheet item where the property is designated for own use or does not qualify as inventory or investment property).

Statement of Accounting Policies

Year ended 31 December 2007

continued

Where the land held under operating lease is classified as inventory (related to development of housing units) the initially recognised value is not subsequently revalued, unless the carrying value exceeds net realisable value.

Where the land is part of an investment property, the operating lease contract for the land is treated as a finance lease in accordance with IAS 40. As a result, at the time the Group enters into the contract, the fair value of future payments under the lease contract is calculated and recognised as a liability. Following the initial recognition, in subsequent accounting periods, the total value of investment property (including the land element) is revalued to fair value and the difference is included in the income statement.

The long-term land lease contracts which are separately disclosed in the balance sheet (i.e. do not qualify as inventory or investment property) are charged to the income statement over the lease term and are subject to impairment charges if required.

Where the Group is the lessor:

Operating leases – properties that are let to tenants under operating leases are classed as investment properties in the balance sheet.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets, that necessarily take a substantial period of time to get ready for use or sale, are capitalised as part of the cost of those assets until they are substantially ready for use or sale.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. All other borrowing costs are recognised in the income statement in the year in which they are incurred.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. As at 31 December 2007 and 2006, no financial assets at fair value through profit or loss were held by the Group.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as “trade and other receivables”, “other loan receivables” or “loans receivable from subsidiaries” in the balance sheet (note 18).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. As at 31 December 2007 and 2006, no available-for-sale financial assets were held by the Group.

Intangible assets

Intangibles represent computer software used in the Group's operations as well as assignment fees paid to secure the rights to receive rent from parking spaces let to building tenants. Computer software is amortised over its useful economic life of five years. Assignment fees are amortised over the useful life of the lease.

Property, plant and equipment

Land (except land under operating lease contracts) and buildings held for use in the supply of hotel services are stated in the balance sheet at their revalued amounts, being fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are performed on a semi-annual basis.

Any revaluation increase arising on such assets is credited to the revaluation reserve, except if it reverses a previous reduction in value for the same property that was previously recognised as an expense. In this instance the revaluation increase is credited to the income statement to the extent that the previous reduction in value was charged. A decrease in the valuation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held on the property revaluation reserve relating to a previous increase in the revaluation of that asset.

Depreciation on revalued properties is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for rental are carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. These assets will be transferred to Investment Property when they are ready for their intended use and will be carried on the same basis as other investment property assets.

Leasehold improvements, machinery, office equipment, computers and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful economic lives, using the straight-line method, on the following bases:

Buildings	Over 50 years
Plant and equipment	3 to 10 years
Motor vehicles	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Goodwill

Business combinations are accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Goodwill is not amortised but is reviewed for impairment at each balance sheet date. The Group's policy on impairment is set out below.

Impairment

The carrying amounts of the Group's non-monetary assets, other than investment property, are reviewed at each reporting date. If any indication of impairment of the value of these assets exists, the recoverable amount of the asset is assessed. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable value of an asset is assessed by obtaining an independent assessment of its market value less any costs that would be incurred to realise its value.

Investment property

Investment properties are those that are held either to earn rental income or for capital appreciation or both. Such properties are initially stated at cost, including any related transaction costs. After initial recognition, investment properties are carried at their fair value based on a professional valuation made at each semi annual reporting date.

At each reporting date the difference between the carrying amount of an investment property and its fair value at that date is included in the income statement as a valuation gain or loss.

Other loans receivable

Other loans receivables are recognised initially at fair value and subsequently measured at amortised cost method. The carrying amounts of other loans receivable are reviewed at each reporting date. If any indication of impairment of the value of these assets exists, the recoverable amount of the asset is assessed. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment of other loans receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Inventories of housing units

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs, interest costs of financing the development and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing and selling the inventories.

Statement of Accounting Policies

Year ended 31 December 2007

continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within cost of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against cost of operations in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances, deposits held at banks and other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within bank loans in current liabilities on the balance sheet. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Restricted bank deposits

Restricted bank deposits consist of deposits in banks that the Group pledged to secure banking facilities for the Group and to which the Group does not have access.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

Taxation

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 so that it is exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable in Guernsey. The Company is, therefore, only liable to a fixed fee of £600 per annum. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption.

Current tax arises in jurisdictions other than Guernsey. It is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantially enacted. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years – temporary differences and items that are never taxable or deductible – permanent differences. Temporary differences principally arise from using different balance sheet values for assets and liabilities than their respective tax base values. Deferred tax is provided in respect of all these taxable temporary differences at the balance sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that suitable taxable profits will be available against which the future reversal of the underlying temporary differences can be deducted.

Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited to equity.

Dividends

Final dividend payments in respect of a financial year are recognised as a liability in the year in which the dividend payment is approved by the Company's shareholders.

Interim dividends paid are recognised in the year in which the payment is made.

Changes to accounting policies since the last period

The Group has applied the following standards for the period commencing 1 January 2007. There has been no significant impact to the financial information as a result of applying these standards for the first time.

- » IFRS 7, *Financial instruments: Disclosures*, and the complementary amendment to IAS 1, *Presentation of financial statements – Capital disclosures*, it introduces new disclosures relating to financial instruments.
- » IFRIC 7, *Applying the restatement approach under IAS29* (effective for annual periods beginning on or after 1 March 2006);
- » IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- » IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- » IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not yet adopted. None of these standards are expected to have a significant impact on recognition or measurement of the Group's assets or liabilities.

- » IAS 23, *Borrowing Costs* (revised March 2008; effective for annual periods beginning on or after 1 January 2009).
- » IFRS 8, *Operating segments* (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires a company to report financial and descriptive information about its operating segments and specifies how a company should report such information. The Group will apply IFRS 8 from 1 January 2009. The Group is currently assessing the impact of IFRS 8 on its financial statements.
- » IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007), addresses share-based payment arrangements. It is not expected to have any material impact on the Group's financial statements.
- » IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008; not yet adopted by the EU). No such arrangement exists within the Group.
- » IFRIC 13, *Customer Loyalty programmes* (effective for annual periods beginning on or after 1 July 2008; not yet adopted by the EU), addresses how companies that grant their customers loyalty award credits when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points (not yet adopted by EU). No such arrangement exists within the Group.
- » IFRIC 14, *The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 July 2008; not yet adopted by EU), addresses certain aspects of the accounting for pension plans. No such plans exist within the Group.

Notes to the Financial Statements

1. Financial risk management

1.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described above.

Risk management is carried out by the Property Manager under policies approved by the Board of Directors. The Property Manager identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board approves written principles for overall risk management, and is overseeing the development of policies covering specific areas such as foreign exchange risk and interest rate risk. The Property Manager may call upon the services of a retained risk management consultant in order to assist with its risk assessment tasks.

Reports on risk management are produced periodically on an entity and territory level to the key management personnel of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, Polish zloty, Hungarian forint, Slovak crowns, Romanian lei, and Bulgarian lev. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

In the year covered by these consolidated financial statements the Group has not entered into any currency hedging transactions.

The tables below summarise the Group's exposure to foreign currency risk at 31 December 2007.

The Group's assets and liabilities at carrying amounts are included in the table, categorised by the currency at their carrying amount.

	EUR	PLN	HUF	SKK	RON	Other	Total
Intangible assets	–	936	4	–	2	–	942
Investment property	217,040	–	–	–	–	–	217,040
Land held under operating lease	–	18,984	–	–	–	–	18,984
Property, plant and equipment	–	98,891	157	8	14,413	–	113,469
Inventories	324	67,866	14,808	20,575	21,071	–	124,644
Trade receivables	1,431	6,070	1,221	95	566	219	9,602
Cash and cash equivalents	22,391	10,243	1,063	421	95	648	34,861
Other loans receivable	8,666	–	–	–	8	–	8,674
Deferred tax asset	–	3,121	13	150	–	–	3,284
Total assets	249,852	206,111	17,266	21,249	36,155	867	531,500
Trade and other payables	(17,130)	(40,034)	(1,505)	(162)	(617)	(733)	(60,181)
Borrowings, including finance leases	(194,646)	(23,777)	(65)	–	–	–	(218,488)
Deferred income tax	(587)	(17,849)	(5,917)	(1,244)	(2,619)	(499)	(28,715)
Total liabilities	(212,363)	(81,660)	(7,487)	(1,406)	(3,236)	(1,232)	(307,384)
Net assets	37,489	124,451	9,779	19,843	32,919	(365)	224,116

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated – for example, change in interest rate and change in foreign currency rates. The Group manages foreign currency risk on an overall basis. The sensitivity analysis prepared by management for foreign currency risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

If the euro weakened/strengthened by 10% against the Polish zloty with all other variables held constant, post-tax profit for the year would have been €900,953 higher/lower (2006: post-tax loss for the period would have been €268,919 lower or €328,679 higher).

If the euro weakened/strengthened by 10% against the Hungarian forint with all other variables held constant, post-tax profit for the year would have been €105,991 lower/higher (2006: post-tax loss for the period would have been €106,567 higher or €130,249 lower).

If the euro weakened/strengthened by 10% against the Slovak crown with all other variables held constant, post-tax loss for the year would have been €289,497 higher/lower (2006: post-tax loss for the period would have been €275,434 higher or €314,461 lower).

If the euro weakened/strengthened by 10% against the Romanian lei with all other variables held constant, post-tax profit for the year would have been €2,220,409 lower/higher (2006: post-tax loss for the period would have been €35,280 lower or €43,120 higher).

If the euro weakened/strengthened by 10% against the Bulgarian lev with all other variables held constant, post-tax loss for the year would have been €638 higher/lower.

(ii) Price risk

The Group is exposed to property price and property rentals risk. The Group is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets denoted in currencies other than euro, its income and operating cash flows from such assets are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings (note 22). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's cash flow and fair value interest rate risk is periodically monitored by the Property Manager. The Property Manager analyses its interest rate exposure on a dynamic basis. It takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. Various scenarios are considered including refinancing, renewal of existing positions, alternative financing and hedging. The scenarios are reviewed on a periodic basis to verify that the maximum loss potential is within the limit given by management.

Trade and other receivables and payables are interest-free and have settlement dates within one year.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

An increase in 100 basis points in interest yields would result in a decrease in the post-tax profit for the year of €1,836,272 (2006: increase in the post-tax loss for the period of €430,121). A decrease in 100 basis points in interest yields would result in a increase in post-tax profit for the year of €1,836,272 (2006: decrease in the post-tax loss for the period of €430,121).

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. Credit risk is managed on a local and group basis and structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual and more frequent review. The Group has policies in place to ensure that where possible rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored. The table below shows the balance of the four major counterparties at 31 December 2007:

		31 December 2007 Balance EUR
	Rating	
The Royal Bank of Scotland Group PLC	AA–	9,028,000
ING Bank N.V.	AA	1,581,000
Bank BPH	A3	11,076,000
Emporiki Bank	A	10,011,000
		31,696,000

Notes to the Financial Statements

continued

1. Financial risk management continued

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, 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 Property Manager aims to maintain flexibility in funding by keeping cash and committed credit lines available.

The Group's liquidity position is monitored on a weekly basis by the management and is reviewed quarterly by the Board of Directors. A summary table with maturity of financial assets and liabilities presented below is used by key management personnel to manage liquidity risks and is derived from managerial reports at entity level.

	2007 €'000	2006 €'000
Financial assets – current		
Trade receivables – maturity within one year	9,602	22,241
Cash and cash equivalents – maturity within one year	34,861	62,672
	44,463	84,913
Financial liabilities – non-current borrowings		
Between 1 and 2 years	(17,019)	(22,579)
Between 2 and 5 years	(50,145)	(15,755)
Over 5 years	(121,502)	(37,836)
	(188,666)	(76,170)
Financial liabilities – current		
Borrowings	(29,822)	(2,892)
Trade and other payables – maturity within one year	(51,514)	(30,724)
	(81,336)	(33,616)

Included in trade and other payables are deposits received from customers from the pre-sale of apartments in development. These amount to €26.8 million and will be released to the income statement upon completion of the development.

Within the current borrowings, a loan of €22 million has been refinanced to August 2013. Information on any contracted loans or on any advanced loans was set out in the prospectus issued to the Warsaw Stock Exchange in February 2008. There have been no significant changes to these loans apart from the extension of maturity date relating to the loan highlighted above.

1.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank loans and loans from minority investors, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group's longer term strategy is to maintain a gearing ratio within 50% to 70%. The gearing ratio as at 31 December 2007 was as follows. The gearing ratio for 2006 was low as cash raised at the IPO was awaiting investment.

	2007 €'000	2006 €'000
Total borrowings	(224,382)	(84,450)
Less: cash and cash equivalents	34,861	62,672
Net debt	(189,521)	(21,778)
Total equity	(224,116)	(223,862)
Total capital	(413,637)	(245,640)
Gearing ratio	45.8%	8.9%

2. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

2.1 Critical accounting estimates and assumptions

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

(a) Estimate of fair value of investment properties

The Property Manager engages the services of Cushman & Wakefield to assist in its assessment of the fair values of investment properties and of property, plant and equipment. All investment property and property, plant and equipment is revalued on a semi-annual basis by appropriately qualified, independent valuers. The valuations are prepared in accordance with generally accepted international valuation methods and procedures. Any assumptions made by the valuer are reviewed by the Board and the Property Manager for their reasonableness.

(b) Inventory

The Group's main activities are the development and sale of residential apartments. The process of obtaining zoning and permits may in itself take some time. This period is then added to by the time taken to construct the apartments. In this time the purchase cost of the land and the construction costs are recorded within inventory. The Group continually reviews the net realisable value of its development properties against the cumulative costs that are held on its balance sheet. To enable this review, management have appointed an appropriately qualified engineer to monitor and control the costs of construction.

The costs that have been incurred and are projected to be incurred are benchmarked against those available in the market to ensure that best value is received. A strict tendering process is adhered to when procuring construction services and the costs are controlled locally on a monthly basis. In addition to this, the Group retains Cushman & Wakefield to undertake an independent assessment of the net realisable value of its developments on a semi-annual basis.

(c) Income taxes

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

2.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services. 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 judgement.

11 months ended 31 December 2006 (Restated)

	Property rental €'000	Residential sales €'000	Hotel operations €'000	Total €'000
Revenue	5,321	–	–	5,321
Segment result	4,712	(413)	(1,127)	3,172
Unallocated costs				(13,805)
Operating loss				(10,633)
Finance cost				(1,663)
Finance income				2,507
Loss before tax				(9,789)
Tax on loss on ordinary activities				(840)
Loss for the period				(10,629)
Attributable to minority interests				(61)
Net loss attributable to equity shareholders				(10,690)
Segment assets	63,295	111,589	101,626	276,510
Share of joint venture assets				3,253
Unallocated assets				81,490
Total assets				361,253
Segment liabilities	(20,842)	(42,977)	(49,668)	(113,487)
Share of joint venture liabilities				(783)
Unallocated liabilities				(23,121)
Total liabilities				(137,391)
Other segment items				
Capital expenditure	228	8,728	85,145	
Depreciation	29	66	93	
Amortisation	16	1	3	

There are immaterial sales between the business segments. Unallocated costs represent corporate expenses and the net goodwill arising on acquisitions. Segment assets include property, plant and equipment, goodwill, inventories, debtors and operating cash. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditure comprises additions to property, plant and equipment and investment properties and includes additions from acquisitions through business combinations.

Unallocated assets represent cash balances held by the Company and those of selected sub-holding companies, deposits paid for potential future property acquisitions and a land holding with no designated use as at the balance sheet date.

Unallocated liabilities include accrued costs within the Company, and deferred consideration for land holdings with no designated use as at the balance sheet date.

3.2 Secondary reporting format – geographical segments

The Group manages its business segments on a region wide basis. The operations are based in five main countries within the Group's region of focus with mainly cash balances being held by the parent company. The five principal territories are: Poland; Hungary; Slovakia; Bulgaria; and Romania.

Year ended 31 December 2007

	Revenue €'000	Segment assets €'000	Capital expenditure €'000	Depreciation €'000	Amortisation €'000
Poland	18,505	310,970	95,792	3,340	141
Hungary	6,906	69,030	5,406	38	–
Slovakia	1	–	233	12	–
Bulgaria	129	7,719	12,948	4	–
Romania	1,684	77,931	12,481	191	–
	27,225	465,650	126,860	3,585	141
Investment in joint ventures	–	46,043			
Unallocated	150	19,807			
	27,375	531,500			

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3. Business and geographical segments continued

11 months ended 31 December 2006 (Restated)

	Revenue €'000	Segment assets €'000	Capital expenditure €'000	Depreciation €'000	Amortisation €'000
Poland	243	159,658	95,638	147	5
Hungary	5,078	69,381	228	29	16
Slovakia	–	37,799	64	16	–
Bulgaria	–	–	–	–	–
Romania	–	31,052	–	–	–
	5,321	297,890	95,930	192	21
Investment in joint ventures	–	3,253			
Unallocated	–	60,110			
	5,321	361,253			

4. Analysis of expenditure

4.1 Cost of operations

	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000
Property operating costs	1,552	1,319
Utilities, services rendered and other costs	7,119	2,298
Depreciation and amortisation	3,650	220
Staff costs	7,294	902
Cost of operations	19,615	4,739

4.2 Administrative expenses

	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000
Audit and tax services				
– Audit		622	246	71
– Non audit	1,351	77	151	–
Incentive and management fee	12,289	9,400	12,289	9,400
Other professional fees	5,369	1,844	1,809	680
Share based payments (note 25)	321	542	321	542
Staff costs	906	230	358	230
Other administrative expenses	3,459	2,076	225	114
Administrative expenses	24,317	14,774	15,399	11,037

4.3 Employee benefit expenses

	Group 2007 €'000	Group 11 months ended 31 December 2006 €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000
Wages and salaries	7,386	914	358	230
Social security costs	808	186	–	–
Pension costs	6	32	–	–
Employee benefit expenses	8,200	1,132	358	230
Average number of employees	379	76	4	4

5. Other gains and losses – net

	Group 2007 €'000	Group 11 months ended 31 December 2006 €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000
Unrealised foreign exchange gains	5,987	3,062	316	–
Unrealised foreign exchange losses	(4,119)	(2,066)	–	(231)
Realised foreign exchange gains	961	312	–	–
Realised foreign exchange losses	(2,306)	(1,475)	–	–
Total	523	(167)	316	(231)

6. Finance income – net

	Group 2007 €'000	Group 11 months ended 31 December 2006 €'000	Company 2007 €'000	Company 11 months ended 31 December 2006 €'000
Interest payable on bank borrowings	(7,718)	(992)	–	–
Interest payable on other loans	(45)	(157)	–	–
Other similar charges	(279)	(514)	(6)	(9)
Finance cost	(8,042)	(1,663)	(6)	(9)
Finance income – interest income	1,794	2,507	11,169	6,727
Finance (cost)/income	(6,248)	844	11,163	6,718

7. Tax on profit on ordinary activities

Continuing operations

	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000
Current tax	(359)	(128)
Deferred tax	(2,736)	(712)
Tax charge for the period	(3,095)	(840)

Tax on items charged to equity

	Group 2007 €'000	Group 11 months ended 31 December 2006 €'000
Deferred tax on revaluations surplus	(516)	(301)
Deferred tax release	1,625	(699)
Deferred tax on exchange movements offset in reserves	(530)	–
	579	(1,000)

No tax charge arises in the Company due to its tax exempt status under Guernsey Law.

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7. Tax on profit on ordinary activities continued

Taxation has been calculated by applying the standard corporate tax rates ruling in each operating territory. The difference between the total current tax shown above and the amount calculated by applying the standard rates of corporation tax to the profit before tax is as follows:

	Group 2007 €'000	Group 11 months ended 31 December 2006 (Restated) €'000
Profit/(loss) on ordinary activities before tax	11,351	(9,789)
Tax on profit/(loss) on ordinary activities at average country rate – 19%	(2,157)	1,860
Factors affecting charge:		
Permanent differences	(861)	(1,569)
Utilisation of brought forward tax losses	15	135
Adjustment to deferred tax relating to a change in tax rates in the year	–	(557)
Deferred tax not recognised on losses	(152)	(645)
Prior year adjustment	(700)	–
Differences in local tax rates	760	(64)
Tax charge for period	(3,095)	(840)

8. Dividends

	Group 2007 €'000	Group 2006 €'000
Interim paid for 2006 – 4.16 eurocents per ordinary share	–	2,040
Second interim paid for 2006 – 8.32 eurocents per ordinary share	4,032	–
Interim paid for 2007 – 8.32 eurocents per ordinary share	4,031	–
	8,063	2,040

In addition the directors have approved a second interim dividend in respect of the financial period ending 31 December 2007 of 16.68 eurocents per share.

9. Earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) after tax attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The difference in the number of ordinary shares between the basic and diluted earnings per share reflects the impact were the outstanding share warrants to be exercised.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Year ended 31 December 2007

	Profit €'000	Weighted average number of shares	Per share amount Eurocents
Continuing operations			
Basic EPS			
Profit attributable to equity shareholders	8,196	48,264,519	17.0
Effect of dilutive securities			
Share warrants	–	–	–
Diluted EPS			
Adjusted profit	8,196	48,264,519	17.0

11 months ended 31 December 2006 (Restated)

Continuing operations	Loss €'000	Weighted average number of shares	Per share amount Eurocents
Basic EPS			
Loss attributable to equity shareholders	(10,690)	48,849,966	(21.8)
Effect of dilutive securities			
Share warrants	-	-	-
Diluted EPS			
Adjusted loss	(10,690)	48,849,966	(21.8)

The outstanding share warrants exercise price exceeds current market value; therefore the warrants are not dilutive. As a result, diluted earnings per share equals basic earnings per share.

10. Goodwill

Group	2007 €'000	2006 €'000
Cost		
At beginning of period	1,956	-
Acquisitions through business combinations	(188)	1,956
At end of period	1,768	1,956
Aggregate impairment		
At beginning of period	(1,956)	-
Impairment charge	188	(1,956)
At end of period	(1,768)	(1,956)
Net book amount at end of period	-	-

The underlying assets and liabilities of the Group relate to its property assets and development projects. Such assets and liabilities were independently valued as at their acquisition date. The Group has also carried out an impairment test for resulting goodwill and considered that it was impaired with reference to fair value less cost to sell of the related cash generating unit.

Analysis of amounts charged to the Income Statement:

	2007 €'000	2006 €'000
Impairment charge in relation to acquired goodwill	201	13,354
Negative goodwill realised on acquisitions (see note 28)	(389)	(11,398)
Net charge to the income statement	(188)	1,956

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11. Intangible assets

Group	Computer software €'000	Other €'000	Total €'000
Cost			
At 3 February 2006	–	–	–
Acquisitions through business combinations	5	–	5
Additions	183	–	183
Exchange adjustments	(5)	–	(5)
At 31 December 2006	183	–	183
Acquisitions through business combinations	–	–	–
Additions	442	478	920
Exchange adjustments	9	–	9
At 31 December 2007	634	478	1,112
Amortisation			
At 3 February 2006	–	–	–
Change for the period	(21)	–	(21)
At 31 December 2006	(21)	–	(21)
Change for the period	(108)	(33)	(141)
Exchange adjustments	(6)	(2)	(8)
At 31 December 2007	(135)	(35)	(170)
Net book value at 31 December 2007	499	443	942
Net book value at 31 December 2006	162	–	162

12. Land Under Operating Lease – Group

Land under operating lease of €18.5 million arose under business combinations during 2006. During the year ended 31 December 2007 amortisation of €100,000 (2006: €78,000) was charged to the income statement, and exchange adjustments of €662,000 were credited to other reserves.

13. Property, plant and equipment

Group	Buildings €'000	Plant and equipment €'000	Motor vehicles €'000	Total €'000
Cost or valuation				
At 3 February 2006	–	–	–	–
Acquisitions through business combinations	67,431	113	113	67,657
Additions at cost	16,909	305	46	17,260
Exchange adjustments	427	(2)	5	430
Disposals	(7)	(29)	(72)	(108)
Revaluation	3,680	–	–	3,680
At 31 December 2006 (Restated)	88,440	387	92	88,919
Acquisitions through business combinations	14,665	131	–	14,796
Additions at cost	1,206	2,044	174	3,424
Exchange adjustments	5,620	564	4	6,188
Disposals	–	(90)	(13)	(103)
Revaluation	4,054	–	–	4,054
At 31 December 2007	113,985	3,036	257	117,278
Accumulated depreciation				
At 3 February 2006	–	–	–	–
Charge for the year	(18)	(80)	(16)	(114)
Disposals	2	10	1	13
At 31 December 2006 (Restated)	(16)	(70)	(15)	(101)
Charge for the year	(2,734)	(705)	(46)	(3,485)
Exchange adjustments	(217)	(31)	1	(247)
Disposals	–	11	13	24
At 31 December 2007	(2,967)	(795)	(47)	(3,809)
Net book value at 31 December 2007	111,018	2,241	210	113,469
Net book value at 31 December 2006 (Restated)	88,424	317	77	88,818

Buildings were valued as at 31 December 2007 by qualified professional valuers working for the company of Cushman & Wakefield, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors. All properties were valued on the basis of Market Value and the valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. For all properties, valuations were based on current prices in an active market. The resulting revaluation adjustments, net of applicable deferred taxes, have been taken to the revaluation reserve in shareholders equity (note 26).

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2007 €'000	2006 (Restated) €'000
Cost	110,747	84,760
Accumulated depreciation	(3,809)	(16)
At 31 December 2007 and 2006	106,938	84,744

14. Investment property

Group	2007 €'000	2006 €'000
At beginning of the period	67,585	–
Acquisitions through business combinations	7,500	49,545
Additions	98,295	12,483
Disposals	–	–
Capitalised subsequent expenditure	76	338
Exchange movements	5,244	(393)
PV of annual perpetual usufruct fees	2,180	–
Fair value gains	36,160	5,612
Total	217,040	67,585

The fair value of the Group's investment property at 31 December 2007 has been arrived at on the basis of a valuation carried out at that date by Cushman & Wakefield. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged investment property of €191,765,000 to secure certain banking facilities granted to subsidiaries. Borrowings for the value of €116,300,255 are secured on these investment properties (note 22).

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to €13.8 million. Direct operating expenses arising on the investment property in the period amounted to €6.5 million.

15. Operating lease receivables – where the Group is a lessor

The Group leases its investment property under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease receipts under non-cancellable operating leases which are not recognised as an asset as at 31 December 2007 are as follows:

	2007 €'000	2006 €'000
No later than 1 year	8,393	3,440
Later than 1 year and no later than 5 years	21,630	9,178
Later than 5 years	6,482	8,848
Total	36,505	21,466

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16. Investments

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Fixed asset investments				
Shares in Group undertakings				
At beginning of period	–	–	21,220	–
Additions in year	–	–	–	21,220
At end of period	–	–	21,220	21,220

Investments in Group undertakings are stated at cost. Cost is recognised as the nominal value of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. The directors believe that the book value of investments is supported by their underlying net assets.

A list of principal subsidiary undertakings and joint ventures is given at note 31.

17. Inventories

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Land held for development	89,160	89,182	–	–
Construction expenditures	35,484	10,023	–	–
Freehold and leasehold properties held for resale	124,644	99,205	–	–

The Group consumed €nil of inventories during the period. Bank borrowings are secured on land for the value of €29,047,869 (note 22).

18. Trade and other receivables

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Amounts falling due within one year:				
Trade receivables	4,665	1,949	–	263
Less: provision for impairment of receivables	(1,548)	(1,393)	–	–
Trade debtors – net	3,117	556	–	263
Other receivables	4,816	11,304	140	–
Prepayments and accrued income	1,669	10,381	2	47
	9,602	22,241	142	310
Non-current – other loans receivable:				
Loans to minority investors	8,403	327	–	–
Other non-current trade and other receivables	271	–	263	–
	8,674	327	263	–
Non-current – loans receivable from subsidiaries:				
Loans receivable from subsidiaries	–	–	177,965	173,304
	18,276	22,568	178,370	173,614

Loans receivable from subsidiaries and loans to minority investors are interest-bearing, with interest charged at EURIBOR plus an agreed percentage. These loans have no agreed maturity date and are not considered impaired.

The book values of trade and other receivables, other loans receivable and loans receivable from subsidiaries are considered to be approximately equal to their fair value.

As at 31 December 2007, current trade receivables of €1,548,000 (2006: €1,393,000) were impaired. Bad debts of €762,000 as at 31 December 2007 (2006: €nil) were written off. The ageing of the impaired receivables is as follows:

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
0 to 3 months	–	–	–	–
3 to 6 months	–	–	–	–
Over 6 months	(1,548)	(1,393)	–	–
	(1,548)	(1,393)	–	–

As of 31 December 2007, current trade receivables of €164,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The carrying amounts of current trade and other receivables are denominated in the following currencies:

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Euro	1,431	4,628	140	310
Pounds	2	–	2	–
Polish zloty	6,070	11,783	–	–
Hungarian forint	1,221	5,591	–	–
Other currencies	878	239	–	–
	9,602	22,241	142	310

Movements on the provisions for impairment of trade receivables are as follows:

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
At beginning of period	(1,393)	–	–	–
Provision for impairment of trade receivables	(800)	(1,393)	–	–
Trade receivables written off during the year as uncollectable	605	–	–	–
Reversal of unused provision	40	–	–	–
At end of period	(1,548)	(1,393)	–	–

The other classes within trade and other receivables do not contain impaired assets.

19. Cash and cash equivalents

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Cash and cash equivalents				
Cash at bank and in hand	19,817	55,952	3,232	48,276
Short-term bank deposits	15,044	6,720	–	–
	34,861	62,672	3,232	48,276

The effective interest rate on the short-term call deposit was 3.65% and this deposit is immediately available.

Included in cash and cash equivalents is €6.4 million restricted cash relating to security and customer deposits.

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20. Cash generated from operations

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Profit/(loss) for the period	8,256	(10,629)	(6,029)	(4,550)
Adjustments for:				
Finance costs	8,042	1,663	6	9
Finance income	(1,794)	(2,507)	(11,169)	(6,727)
Tax expense	3,095	840	–	–
Operating profit/(loss)	17,599	(10,633)	(17,192)	(11,268)
Bad debt write off	762	–	–	–
Depreciation of property, plant and equipment	3,585	192	–	–
Amortisation charges	141	21	–	–
Gain/(loss) on sale of property plant and equipment	67	(74)	–	–
Net goodwill arising on acquisitions charged to the income statement	(188)	1,956	–	–
Increase in the value of investment property	(36,160)	(5,612)	–	–
Effects of foreign currency	(523)	167	–	–
Charge relating to share based payments	321	542	321	542
	(31,995)	(2,808)	321	542
Changes in working capital				
Increase in inventory	(25,439)	(5,168)	–	–
Decrease/(increase) in trade and other receivables	12,368	(1,114)	(95)	(271)
Increase/(decrease) in trade and other payables	17,514	7,982	(10,494)	6,087
	4,443	1,700	(10,589)	5,816
Cash outflow generated from operations	(9,953)	(11,741)	(27,460)	(4,910)

21. Trade and other payables

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Current				
Trade payables	(5,854)	(2,835)	(2,697)	(5,645)
Other tax and social security	(558)	(300)	–	–
Deferred consideration	–	(14,154)	–	–
Other creditors	(11,737)	(3,086)	(7,037)	(14,209)
Accruals and deferred income	(33,365)	(10,349)	–	(374)
	(51,514)	(30,724)	(9,734)	(20,228)
Non-current – other payables				
Loans from minority investors	(5,894)	(5,388)	–	–
Other non-current trade and other payables	(2,773)	(659)	–	–
	(8,667)	(6,047)	–	–
	(60,181)	(36,771)	(9,734)	(20,228)

The loans from minority investors were unsecured and bore interest between 3.9% and 10.0% per annum. The book value of the loans is considered to be approximately equal to their fair value. They are repayable within 1-2 years.

22. Bank loans

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Current				
Bank loans and overdrafts due within one year or on demand				
Secured	(29,822)	(2,892)	–	–
Non-current				
Repayable within two years				
Secured	(17,019)	(22,579)	–	–
Repayable within three to five years				
Secured	(50,145)	(15,755)	–	–
Repayable after five years				
Secured	(121,502)	(37,836)	–	–
	(188,666)	(76,170)	–	–
Total	(218,488)	(79,062)	–	–

The bank loans are secured on various properties of the Group by way of fixed or floating charges.

The effective interest rates as at the balance sheet date were:

	Euro	Zloty
Bank loans	5.36%-6.85%	6.7%-6.9%

The fair value of the fixed and floating rate borrowings approximated their carrying values at the balance sheet date, as the impact of marking to market and discounting is not significant. The fair values are based on cash flows discounted using rates based on equivalent fixed and floating rates as at the end of the period.

Bank loans are denominated in a number of currencies and bear interest based on a variety of interest rates. An analysis of the Group's borrowings by currency:

	Forint €'000	Euro €'000	Zloty €'000	Total €'000
Bank loans and overdrafts – 31 December 2007	65	194,646	23,777	218,488
Bank loans and overdrafts – 31 December 2006	–	69,874	9,188	79,062

The Group has the following undrawn borrowing facilities:

	Euro 2007 €'000
Floating rate:	
Expiring beyond one year	24,723

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates applicable to each individual territory.

The movement on the deferred tax account is as shown below:

	Group 2007 €'000	Group 2006 (Restated) €'000	Company 2007 €'000	Company 2006 €'000
At beginning of the period	(19,737)	–	–	–
Acquisitions through business combinations	(3,069)	(17,880)	–	–
Disposals	270	–	–	–
Charged to income statement	(2,736)	(712)	–	–
Charged to equity	614	(1,000)	–	–
Exchange differences	(773)	(145)	–	–
At end of the period	(25,431)	(19,737)	–	–

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23. Deferred tax continued

The movements in deferred tax assets and liabilities during the period are shown below.

	Accelerated tax depreciation and other €'000	Revaluation and fair value adjustments on acquisition €'000	Total €'000
Deferred tax liabilities – non-current			
At 3 February 2006	–	–	–
Acquisitions through business combinations	38	(18,024)	(17,986)
Profit and loss charge/(credit)	(328)	(2,074)	(2,402)
Charged to equity	(300)	(700)	(1,000)
Other	(83)	(87)	(170)
At 31 December 2006	(673)	(20,885)	(21,558)
Acquisitions through business combinations/(disposals)	–	(2,718)	(2,718)
Profit and loss charge/(credit)	(785)	(3,387)	(4,172)
Charged to equity	(522)	1,103	581
Other	(230)	(618)	(848)
At 31 December 2007	(2,210)	(26,505)	(28,715)

	Tax losses €'000	Other €'000	Total €'000
Deferred tax assets – non-current			
At 3 February 2006	–	–	–
Acquisitions through business combinations	19	87	106
Charged to the income statement	841	849	1,690
Other	–	25	25
At 31 December 2006	860	961	1,821
Acquisitions through business combinations/disposals	–	(81)	(81)
Charged to the income statement	918	519	1,437
Charged to equity	73	(40)	33
Other	50	24	74
At 31 December 2007	1,901	1,383	3,284

The deferred income tax charged to equity during the year is as follows:

	Group 11 months ended		Company 11 months ended	
	Group 2007 €'000	31 December 2006 €'000	Company 2007 €'000	31 December 2006 €'000
Fair value reserves in shareholders' equity				
Revaluation of land and buildings	(516)	(699)	–	–
Exchange movements offset in reserves	(530)	(301)	–	–
Release	1,625	–	–	–
Other	35	–	–	–
	614	(1,000)	–	–

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures due to the parent company's tax exempt status.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company; or different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

24. Share capital and premium

	Number of shares	Ordinary shares €'000	Share premium €'000	Total €'000
Authorised				
Ordinary shares of €0.01 each	100,000,000	1,000	–	1,000
Issued and fully paid				
At 3 February 2006	–	–	–	–
Issued to founder shareholders	13,702,981	137	68,378	68,515
Issued at IPO	35,690,100	356	178,094	178,450
Cost of issue of shares	–	–	(14,049)	(14,049)
Cancellation of share premium account	–	–	(232,423)	(232,423)
Shares bought back and cancelled	(945,000)	(9)	–	(9)
As at 31 December 2006	48,448,081	484	–	484
Shares bought back and held in Treasury	(3,470,000)	–	–	–
As at 31 December 2007	44,978,081	484	–	484

During the year 3,470,000 ordinary shares of €0.01 each with an aggregate nominal value of €34,700 were purchased and are held in Treasury. Distributable reserves have been reduced by €16,023,000, being the consideration paid for these shares.

25. Share based payment

On 23 February 2006 the Company executed and adopted a Warrant Instrument and thereby constituted up to 5,114,153 Warrants that were issued on 24 February 2006 conditional upon the Company's admission to AIM on 1 March 2006. This was increased by 373,965 on 20 March 2006 upon the exercise of the Greenshoe provisions of the placing agreement. The Warrants are exercisable during the period commencing on Admission to AIM and expiring on the earlier of: (i) seven years from Admission; or (ii) upon an offeror becoming entitled to acquire the entire issued share capital of the Company. Each of the Warrant Recipients has agreed to certain restrictions on his/its ability to exercise or transfer the Warrants held by him/it.

The exercise price of each of the Warrants is €5. The exercise price and number of ordinary shares relating to such Warrants will be subject to adjustment in respect of dilution events, including the payment by the Company of cash or special dividends, any amalgamation, reorganisation, reclassification, consolidation, merger or sale of all or substantially all of the Group's assets and other dilutive events. The Warrants are freely transferable.

Warrants were valued using the Black-Scholes option pricing model. The fair value per warrant granted and the assumptions used in the calculation are as follows:

Grant date	1 March 2006	20 March 2006
Share price at grant date	€5.00	€5.00
Exercise price	€5.00	€5.00
Number of recipients	6	6
Warrants issued	5,114,153	373,965
Vesting period	1 year	1 year
Expected volatility	15%	15%
Option life	7 years	7 years
Expected life	7 years	7 years
Risk free rate	4.3%	4.3%
Expected dividends expressed as a dividend yield	8.29%	8.29%
Possibility of ceasing employment before vesting	Nil	Nil
Fair value per warrant option	18 eurocents	18 eurocents

The expected volatility is based on a sample of peer group companies as at the date of grant and has been supported by volatility to date. The expected life is the average expected period to exercise. The risk free rate of return is the projected forward sterling rate as at the date of grant.

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25. Share based payment continued

The fair value of the employee services received in exchange for the grant of the Warrants is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Warrants granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of Warrants that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the warrants are exercised.

In 2007, the fair value of the benefit of the total Warrants in issue of €321,055 (2006: €542,000) has been charged to the income statement.

26. Other reserves

Group	Land and buildings revaluation €'000	Other distributable reserve €'000	Translation €'000	Total €'000
At 3 February 2006	–	–	–	–
Cancellation of share premium (note 24)	–	232,423	–	232,423
Shares bought back and cancelled	–	(3,977)	–	(3,977)
Revaluation – gross (note 13)	3,680	–	–	3,680
Revaluation – tax (note 23)	(699)	–	–	(699)
Dividend paid (note 8)	–	(2,040)	–	(2,040)
Exchange differences – gross	–	–	3,152	3,152
Exchange differences – tax (note 23)	–	–	(301)	(301)
At 31 December 2006	2,981	226,406	2,851	232,238
Shares bought back and held in Treasury	–	(16,023)	–	(16,023)
Revaluation – gross (note 13)	4,054	–	–	4,054
Revaluation – tax (note 23)	1,109	–	–	1,109
Dividend paid (note 8)	–	(8,063)	–	(8,063)
Exchange differences – gross	–	–	11,739	11,739
Exchange differences – tax (note 23)	–	–	(530)	(530)
At 31 December 2007	8,144	202,320	14,060	224,524

The amount standing to the credit of the land and buildings revaluation reserve is not a realised gain and is therefore not a distributable reserve. Upon the sale of the underlying assets the amount standing to the credit of the reserve with regard to the asset disposed of will be crystallised within retained earnings.

27. Minority interest

	Group 2007 €'000	Group 2006 €'000
At beginning of the period	1,288	–
Acquisitions through business combinations	–	1,255
Disposal of interests in subsidiary undertakings	(609)	–
Share of net profit/(loss) of subsidiaries	60	61
Exchange adjustments	–	(28)
	739	1,288

28. Acquisition of subsidiary undertakings and investments in joint ventures

- (a) On 2 March 2007, the Group acquired 50% of the share capital of Atlas Estates Kaduri Shasha Zrt for a cash consideration of €3,825,299. The Company has an investment in a land asset in Budapest, Hungary. This transaction has been accounted for using the purchase method of accounting.

	Book Value €'000	Fair value adjustments €'000	Fair value €'000
Share of net assets acquired			
Inventory	3,740	4,731	8,471
Cash	18		18
Shareholder loans payable	(1,445)		(1,445)
Bank loans	(2,264)		(2,264)
Trade and other payables	(8)		(8)
Deferred tax liabilities	–	(947)	(947)
			3,825
Goodwill			–
Total consideration			3,825
Satisfied by:			
Equity			–
Cash			3,825
			3,825

The Company acquired contributed loss after tax of €83,052 from operating revenue of €1,392 to the Group results for the period.

- (b) On 28 March 2007, the Group acquired the entire share capital of Kalipi Holdings Limited, DNB Victoria Tower S.R.L. and Victoria Tower Hotel Management S.R.L. for a cash consideration of €7,448,021. These companies own and manage property assets in Bucharest, Romania. This transaction has been accounted for using the purchase method of accounting.

	Book value €'000	Fair value adjustments €'000	Fair value €'000
Net assets acquired			
PPE	3,949	10,151	14,100
Inventory	18		18
Trade and other receivables	143		143
Cash	91		91
Trade and other payables	(219)		(219)
Deferred tax liabilities	–	(1,624)	(1,624)
Bank overdrafts and loans	(4,672)		(4,672)
			7,837
Negative goodwill			(389)
Total consideration			7,448
Satisfied by:			
Equity			–
Cash			7,448
			7,448

The companies acquired, contributed loss after tax of €104,589 from revenue of €1,744,920 to the Group results for the period.

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28. Acquisition of subsidiary undertakings and investments in joint ventures continued

(c) On 16 October 2007, the Group acquired the share capital of Immobul EOOD for a cash consideration of €5,448,121. The company has an investment in a land and building asset in Sofia, Bulgaria. This transaction has been accounted for using the purchase method of accounting.

	Book value €'000	Fair value adjustments €'000	Fair value €'000
Net assets acquired			
PPE	4		4
Investment property	2,703	4,797	7,500
Trade and other receivables	189		189
Cash and cash equivalents	37		37
Shareholder loans payable	(22)		(22)
External shareholder loans payable	(268)		(268)
Bank loans	(1,678)		(1,678)
Deferred tax liabilities	–	(498)	(498)
Trade and other payables	(17)		(17)
			5,247
Goodwill			201
Total consideration			5,448
Satisfied by:			
Equity			–
Cash			5,448
			5,448

The company acquired contributed a loss after tax of €52,966 from revenue of €129,104 to the Group results for the year.

29. Related party transactions

- (a) Silverock Commerce Limited is an investment subsidiary of Investkredit Bank AG (previously Osterreichische Volksbanken-Aktiengesellschaft), an Austrian bank which is also a shareholder in the Company. Throughout the period to 31 December 2007 OVAG provided loan facilities to a number of Company projects and investments. All such facilities were entered into on an arm's length basis with market standard commercial terms. At exchange rates prevailing on 31 December 2007 a total of €84,872,734 (31 December 2006: €57,403,360) was due to the OVAG Group.
- (b) Elran (DD) Real Estate Limited and Elran Real Estate Limited are part of the Elran Group. As at 31 December 2007 the Elran Group was also the holder of 37.5% of the share capital of AMC. As a result of a qualifying shareholding of 8,088,436 shares in the Company in 2007 Elran (DD) Real Estate Limited received a dividend of €1,345,916.
- (c) The RP Explorer Master Fund and RP Partners Fund are funds that are managed by RP Capital Group. The RP Capital Group is also the holder of 51% of the share capital of AMC. As a result of a qualifying shareholding of 1,623,429 shares in the Company in 2007 RP Capital Group have received a dividend payment of €270,138.
- (d) BCRE Izaki Properties is also the holder of 49% of the share capital of AMC. As a result of a qualifying shareholding of 2,376,356 shares in the Company in 2007 BCRE Izaki Properties received a dividend payment of €395,424.
- (e) Key management compensation

	31 December 2007 €'000	11 months ended 31 December 2006 €'000
Fees for non-executive directors	224	227

The Company has appointed AMC to manage its property portfolio. At 31 December 2007 AMC was owned by Elran, the RP Capital Group and Izaki Group. In consideration of the services provided, AMC received a management fee of €5.2 million for the year ended 31 December 2007 (€3.8 million for eleven months ended 31 December 2006). Under the agreement, AMC are entitled to a performance fee based on the increase in value of the properties over the 12 month period to 31 December 2007. AMC has accrued a performance fee of €7.0 million for the year ended 31 December 2007 (€5.6m for the 11 months ended 31 December 2006).

- (f) Under the loan agreement of 29 September 2005 Kendalside Ltd. which is also a shareholder in Circle Slovakia s.r.o. extended a loan facility of €2,695,797 to Circle Slovakia for the acquisition of a property. The loan facility is to be repaid by 31 August 2013, and bears interest at a variable rate equal to the sum of EURIBOR and the lender's margin. As of 31 December 2007 Circle Slovakia has drawn the loan facility in the amount of €2,695,797 (31 December 2006: €2,695,797).
- (g) Under the loan agreement of 30 October 2006 Eastfield Holding (Cyprus) Limited, which is a Group company of the Company's JV partner in Slovakia, extended a loan facility of SKK 340,000,000 to Eastfield Atlas (previously Slovak Investment and Development) for the purpose of covering ongoing investment and business expenses. The loan facility is to be repaid before 31 December 2015, and bears interest at a variable rate equal to the sum of EURIBOR and the lender's margin. As at 31 December 2007 the borrower has used the loan facility in the amount of SKK 23,487,462 (31 December 2006: SKK 21,724,780).

30. Post balance sheet events

Sale of Millennium Plaza Building

On 14 January 2008 the Company announced the conditional sale of the company owning the Millennium Plaza Building in Warsaw based on a headline price of €93.1 million. This price will be adjusted to reflect among others tenant fit-out costs, where the right to claim dilapidation payments from the leaving tenants has been assigned to the seller. Completion is dependent upon obtaining third party approvals. All conditions must be waived or satisfied by 30 August 2008. A deposit of €7.5 million was received at signing with a balancing payment in cash due upon completion.

Changes in ownership structure of Property Manager

On 4 March 2008, the Board of AMC announced that Elran (DD) Real Estate Limited entered into an agreement with RP Capital Group and BCRE Izaki Properties, for the sale of Elran's 37.5% stake in AMC to RP and Izaki Group, AMC's other shareholders. As a result RP will hold 51% and Izaki Group will hold 49%.

Gadi Dankner and Dori Dankner will resign their positions as directors of AMC and members of the Investment Committee of Company, with immediate effect. Rafael Berber, Roni Izaki and Saradhi Rajan will remain as directors of AMC. Rafael Berber and Roni Izaki will remain as members of the Investment Committee.

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31. Principal subsidiary companies and joint ventures

Country of incorporation	Name of subsidiary/joint venture entity	Status	Percentage of nominal value of issued shares and voting rights held by the Company
Holland	Atlas Estates Cooperatief U.A.	Holding	100%
Holland	Atlas Estates Investments B.V.	Holding	100%
Holland	Trilby B.V.	Holding	100%
Cyprus	Darenisto Limited	Holding	100%
Cyprus	Kalipi Holdings Limited	Holding	100%
Poland	DPM Sp. Z o.o.	Management	100%
Poland	Platinum Towers Sp. Z o.o.	Development	100%
Poland	Nowy Zoliborz Sp. Z o.o.	Development	76%
Poland	Properpol Sp Z o.o.	Management	100%
Poland	Atlas Estates (Millennium) Sp. Z o.o.	Investment	100%
Poland	Capital Apartments Sp. Z o.o.	Development	100%
Poland	Grzybowska Centrum Sp. Z o.o.	Holding	100%
Poland	HGC S.A.	Hotel operation	100%
Poland	HPO Sp Z o.o.	Development	100%
Poland	Atlas Estates (Cybernetyki) Sp Z o.o.	Development	50%
Poland	Atlas Estates CF Plus 1 Sp Z o.o.	Development	50%
Hungary	CI-2005 Investment Kft.	Development	100%
Hungary	Cap East Kft.	Investment	100%
Hungary	Felikon kft.	Investment	100%
Hungary	Ligetváros Kft	Investment	100%
Hungary	Városliget Center Kft	Development	100%
Hungary	Atlas Estates (Moszkva) Kft.	Holding	100%
Hungary	Atlas Estates (Dekan) Kft.	Investment	100%
Hungary	Atlas Estates (Vagany) Kft.	Holding	100%
Hungary	Atlas Estates Kaduri Shasha Kft.	Development	50%
Slovakia	Circle Slovakia s.r.o.	Development	50%
Slovakia	Eastfield Atlas a.s.	Holding	50%
Slovakia	Slovak Trade Company s.r.o	Development	50%
Slovakia	WBS a.s.	Development	50%
Slovakia	Smokovec Trade Company, s.r.o.	Development	50%
Romania	World Real Estate SRL	Development	100%
Romania	Megarom Line SRL	Development	100%
Romania	DNB Victoria Towers SRL	Hotel operation	100%
Romania	DNB Victoria Tower Hotel Management SRL	Management	100%
Bulgaria	Atlas Estates (Totleben) EOOD	Holding	100%
Bulgaria	Immobul EOOD	Investment	100%

The above lists the current operating companies of the Group. In addition, the Group owns other entities which have no operating activities. All Group companies are consolidated.

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